The MAGAZINE of WALL STREET

...A'S GREATEST FINANCIAL PUBLICATION

"Under the Microscope"

Industrial Earnings

High-Yield Listed Bonds

SAFETY AND RARE INVESTMENT RETURNS OF FROM 8% TO 10%

By F. M. Van Wicklen

U. S. Premium-Drawing Bonds?

UNIQUE SUGGESTION FOR WAR FINANCING

By J. W. Harriman, President Harriman National Bank

Rubber—Its Past, Present and Future

By Henry C. Pearson, F.R.G.S.

Editor, *India Rubber World*

American Malting Analyzed

GOING AND LIQUIDATING VALUE OF SECURITIES

By Barnard Powers

The Market Outlook
Montgomery Ward's Status
Distillers—U. S. Ind. Alcohol
Govt. Bonds—Peace Barometer
Tidal Swings of the Stock Market
Civil War Stock Prices
Govt. Finance Corporation
United Eastern's Prospects
Amer. Waterworks and Elec.
Pittsburgh—Consolidation Coal

"OVER-TRADING" IN INVESTMENT AND SPECULATION By R. D. Wyckoff

... 2 1918 No. 11

PER COPY 25¢ PER YEAR $5.

Established 1907

The MAGAZINE of WALL STREET

Vol. 21 | March 2, 1918 | No. 11

THE OUTLOOK

Market Conditions—The Next Loan—Need of Controlling New Securities—The Limit of Interest Rates—Steel Industry—Market Prospect

THE stock market during the last few weeks has presented an appearance of rising prices, because of sharp advances in specialties, but the general average has nevertheless remained nearly stationary. On February 1 the average of 50 active stocks stood at about 69, and as this is written it is still at the same level, after having in the mean time drifted a little below and a little above it. Bonds also have shown practically no change in February, except for a decline of about a point in the average of highest grade rails.

The advance from the extreme low prices reached in mid-December has been to a great extent merely a natural rally. Any prolonged decline necessarily gives rise to conditions tending to bring such a rally. But the more favorable attitude of the Government towards the railroads and the proposal to aid industrials where necessary through the War Finance Corporation, have had considerable influence toward the encouragement of higher prices, and a general feeling that forces underneath the surface are working powerfully toward peace has especially aided bonds and the highest grade of preferred stocks.

Next Liberty Loan Probably 4½%

THE increase in the interest rate on Treasury Certificates to 4½% is generally accepted as an indication that the same rate will apply on the next bond issue. The advance was immediately due to the fact that banks outside New York did not come up to their quota of subscriptions to the 4% certificates. Even so, they made considerable withdrawals of deposits from New York institutions to aid them in making the payments. The result was a 6% call money rate at New York and a fall in the deposits of New York banks. Manifestly this could not go on.

But the real underlying reason for higher interest rates is, of course, the Government's steady demand for capital, which exceeds the country's normal capacity for accumulation.

It is the same broad influence which is causing some New York institutions to offer outside banks a higher rate of interest on deposits. One New York national bank is now offering country banks 3% on their balances, another 2½% and another a rate 1% below the Federal Reserve Bank rate on 15-day advances, now 3½%. There are protests against this bidding of higher rates for the deposits of outside banks, but with the rise in general interest rates everywhere it will probably be difficult to prevent a sympathetic increase in the return on bankers' balances with other banks.

Need of War Finance Corporation

AFTER raising $24,000,000,000 in three and one-half years, England has recently been able to reduce the rate of interest on her Treasury bills to 3½%. Commercial paper also is about 1% lower in London than in New York.

There can be no question that the principal reason for this difference between interest rates in London and in New York is that England has controlled her security

issues very rigidly ever since the war began, so that the Government has been able to absorb practically all accumulating capital into her war loans. The War Finance Corporation is proposed for that purpose in this country, and it is high time that the step was taken. Unfortunately, the bill as it now stands involves unnecessary possibilities of inflation, but as to the urgency of its main purpose there can be no question.

What Is the Limit in Interest Rates?

THE practical question for the investor in connection with this matter of rising interest rate is, where the limit is, or whether there is any limit. The money rate on short term Treasury Certificates is a different thing from the interest return on long-term investments, yet there is necessarily a reciprocal influence between the two. Have we reached a level of bond prices low enough to "discount" the great present demands for capital?

The answer must, like pretty much everything else, depend on the length of the war. An improving peace prospect would be practically certain to prevent any further decline in bond prices and would be very likely to cause a gradual advance. On the other hand, if the war continues we can at least say that bond prices must decline much more slowly from this low level than they have been declining from a higher level.

In fact, there is probably a limit to the rise in the interest return on investments even though the war should continue indefinitely, because there is a limit to the labor power which can be applied to the war. We should be likely to reach a "static plane" of interest rates and general industrial conditions for war, just as we had a more or less static plane of peace conditions before the war.

The Railroads

THE railroad bill, as passed by the Senate, is, if anything, more liberal towards the roads than the President's original recommendation. The most important change is the inclusion of minor lines under the general guaranty, a step which had not been contemplated by Mr. McAdoo. There can be no question of its justice.

Railroad securities are helped by the prospect for the passage of this bill. Doubts still linger as to the condition in which the roads will actually find themselves at the end of the period of Government control. But in spite of those uncertainties railroad common stocks would naturally respond to the more favorable outlook if it were not for the counter-balacing factor of the Government's continued great demands for capital.

As matters stand, however, we are inclined to doubt whether there will be any considerable advance in the prices of railroad stocks, but we do expect a stable investment market for these securities.

The Steel Industry

WITH the steel industry running at not much over half capacity during the winter, the Government has been taking nearly 75% of its output. This means, of course, a very sharp cut in the steel taken by "non-essential" industries, and the question arises whether this class of industry, after being so badly upset during the winter, will absorb the excess of steel production above Government needs when spring brings an approach to normal capacity again. The Navy Department, in taking competitive bids on certain classes of steel recently, received a number which were below the Government's fixed price level—which, it will be remembered, is a maximum, but not a minimum. Steel prices below the Government's figures are by no means impossible.

The Market Prospect

THE buyer for income should not wait too long in making his selections of long-term bonds and high-grade preferred stocks. These securities are now low and peace might come unexpectedly. On the other hand, we consider the outlook for most of the industrial common stocks rather unfavorable. The rally in the market has reduced the short interest, industrial costs are still rising and the net profits of these companies may be further reduced by taxes within the next year, while peace would necessitate a general readjustment.

February 25, 1918.

Our Point of View

On Vital Factors in Finance and Business

SECRETARY McADOO announces that the next and subsequent issues of Treasury certificates will bear 4½% interest. The change is due to the fact that the last issue was not readily absorbed by the banks throughout the country. A comparatively small number of the great banking institutions had to take a disproportionate share.

The change in the rate is only a normal reflection of the relation between supply and demand. The banks are to be called upon to absorb some $3,000,000,000 of these certificates. To create the necessary demand for this tremendous issue a higher rate of interest must be paid.

* * *

The Patriot and His Pocket. The present price of the Liberty 4s shows plainly enough that it was only the appeal to patriotism that enabled the Government to sell them at par. At current prices buyers have already lost a year's interest on their bonds, because so many who bought from patriotic motives have been compelled to sell for more practical and pocket-affecting reasons.

Germans, bears (the two are almost equally in disfavor with the public, perhaps), slackers, manipulators, and so on, have been blamed for the fall of the Liberty bonds below par. But the real reason is that patriotism cannot overturn the law of supply and demand.

While there is nothing sacred about par for our Government bonds, their decline represents a certain degree of injustice. It means simply that all of us, as represented by our Government, are driving a sharp bargain with a part of us, the buyers of Liberty bonds, by not paying as high a rate of interest on the bonds as would maintain them at par under current conditions of supply and demand for capital.

We must all make sacrifices for the war, but the burden should be distributed as equally as possible. The bond buyer, wholly aside from his ownership of the bonds, has to bear his share of the general burden. He is not exempt from draft, or from taxes on his other property, or from loss on other securities, or from anything that the non-bond-buyer has to bear. We should not discriminate against him by forcing him to stand a depreciation in the price of his bonds.

That is why the next bond issue should carry a higher rate of interest.

* * *

Buying a Pig in a Poke. Also the rate of interest on the next loan should be announced as soon as possible. The banks are now buying Treasury certificates convertible into the next loan—issued, in fact, for the express purpose of being so converted—without knowing anything about what the next loan is to be. As one banker puts it, they are buying a pig in a poke.

There is the same trouble here that has plagued the Administration from the start—a lack of forehandedness, delay in making decisions. The country does not expect impossibilities. But why can't the Government draft into its service more of that executive ability which has made us the great business nation of the world?

* * *

The Mills of the Gods— grind slowly, but exceeding fine. A superficial popular sentiment applauded the present and the previous Administration for putting the screws on the railroads. The roads had few friends. For that they were largely to blame themselves.

Nevertheless, we are now paying dearly for our injustice. As a result of popular and Government antagonism, railroad investments fell into disfavor. The roads had increasing trouble in getting the capital for needed improvements and equipment. In the five years from 1902 to 1906 they bought 22,392 locomotives and 1,092,375 freight cars; in five years, 1913 to 1917, 11,958 locomotives and 586,209 freight cars—roughly speaking, half as many, in spite of the very great increase in the business to be hauled.

Now, in the midst of a war which imperils the very existence of democracy, we are reduced to half speed in our preparations by lack of adequate railroad transportation. During the first five months of our participation in the war the roads handled more business than in any full year previous to 1903.

How much have we saved by our jealous fear that somebody else might make a dollar too much?

* * *

Seeing a New Light. The hopeful feature is that the Administration and the people are seeing a new light. In fact, it is more than a light—it is a blinding glare, unrelieved by any sort of new-fangled headlights. The shivering citizen who hugs his frozen radiator on workless Mondays has leisure to reflect that if he won't let the roads make any money they can't buy cars to haul coal with. The Administration, which sees hundreds of vessels laden with war necessities lying idle in our harbors waiting for the railroads to bring them fuel, realizes very sharply that scrimping the roads in past years has not paid.

So now we have Government support for the roads, instead of antagonism; and we are to have a War Finance Corporation to help industrial companies, instead of Government suits to smash them up into bits. And that new attitude has had as much influence as any other one factor in helping along the recent rally in investment markets.

* * *

Trying to Stop Gaps in the Dike. Government price fixing is a good deal like trying to stop the gaps in a dike during a flood—no sooner is the water checked at one point than it breaks through at another. During January, while the Government was busy holding down iron, steel, copper, coal, etc., the following, among others, seized the opportunity to jump up: oats, barley, rye, beef, mutton, pork, eggs, cheese, coffee, tea, molasses, potatoes, cranberries, peanuts, silk, cotton cloth, lead, quicksilver, petroleum, cottonseed oil, rosin, turpentine, tar, brick, cement, lumber, hay—with the net result that Bradstreet's Commodity Index rose from 17.96 Jan. 1 to 18.08 Feb. 1, a new high point.

There is a bill in Congress to raise the minimum price of wheat. It is a question whether, in a time of general scarcity of food and of farm labor, there is anything to be gained by trying to regulate the prices of farm products.

* * *

Lifting Ourselves by Our Boot Straps. Our price-fixing policy needs to be administered with great liberality, but on a wider scale, if at all. It is of little use to fix the price of one commodity here and another there while allowing all the rest to rise at will. The whole economic structure is closely related. When price-fixing was inaugurated it seemed to be the only practical remedy for a runaway situation. But the fact must be recognized that it is a good deal like trying to make water run uphill, and the policy should be abandoned when conditions change as readily as it was entered upon.

And the absurd part of it is that while we are trying to hold down prices with one hand we are proposing to inflate currency and credit still further with the other—about as hopeful an undertaking as lifting yourself by your boot straps.

* * *

Don't Feed the Dog Pickled Olives. Well, we have just done another thing six months after it ought to have been done. Perhaps we ought to feel encouraged that, with so many kettles on the fire, we are no later than that.

Government control of our foreign trade had to come. With food lines in England forming at three o'clock in the morning, we cannot permit our ships to be used in bringing us ostrich feathers and pickled olives or in sending abroad street pianos and dancing slippers.

It is a drastic step and will force further industrial readjustments, but we are at war and we cannot expect to win by cocking our feet on the radiator and smoking 25-cent cigars. The people will willingly forego luxuries if the same rule applies to all alike. That is why Government action is necessary. Jones doesn't want to go without white bread while he sees Smith's wife feeding the dog with it.

* * *

Quantity Production Will Win. The Ford Motor Company is building Liberty motors, gun caissons, ambulances and turbine engines, in addition to its world-famous automobiles, and will soon be at work on a new form of small submarine chaser. Nearly 75% of its factory capacity is already in the service of the Government. This isn't so bad for a pacifist—if all of them were of that stripe there would be little complaint. And another cheering bit of news is that we are already shipping aeroplanes abroad.

Distinctly as it should be. Quantity production ought to win the war for us—and will.

U. S. Premium-Drawing Bonds

Novel Suggestion for War Financing—Its Advantages—The French Precedent—A Subject Which Invites Discussion

By J. W. HARRIMAN

President, The Harriman National Bank

THE saying, "They do these things better in France," has strong bearing at this time upon the terms of issue of the forthcoming Government loan.

The City of Paris and other French municipalities have for fifty years borrowed money for public works on what for description may be termed Premium-Drawing Bonds; that is to say, bonds issued under terms that, generally quarterly, to a certain scientifically calculated number, are drawn by lot and paid off at a premium; in other words, and without any derogation to the standing of the obligation, lottery bonds.

Why, however, Premium-Drawing Bonds for the United States? In my opinion, while the country is both willing and rich, it has not particularly felt the pinch of war, and although I count confidently upon our patriotism and wealth to make full subscription to the issue, and the next, and the next, as the case may be, nevertheless let these issues be made attractive. I believe our people want in addition to indispensable safety for their investment in bonds, as high a rate of return as they can get, and at what practically amounts to a normal rate of interest, the funds will not be forthcoming as promptly as they should be. Hence, let us at least as a temporary expedient make the loan attractive.

The chance would provide the additional factor to which I refer. The problem, however, is not only prompt subscription to the loan, but the question of the rate that it should bear. The higher the rate the more must the Government pay for its borrowing, and since there is no better security in the world than United States Government Bonds, the return will govern the price at which every other security sells.

Would Conserve Security Values

The issue of Premium Drawing Bonds would, in my opinion, produce the money promptly and conserve existing security values. But it would do more than this: it would enable the Government to save substantially in the interest rate, for a Premium-Drawing Bond would be snapped up, bearing a much lower rate than a bond at a higher rate not bearing this privilege. Assume a Premium-Drawing Bond issue of $5,000,000,000 maturing in 30 years, to bear interest at the rate of, say, 3 per cent. One-half of 1 per cent, or only $25,000,000, would provide for premiums upon the bonds, of which a certain number would be drawn by lot semi-annually. Now, if the prospect is for a rate of 4½ per cent on the next loan, there would be an obvious saving of 1 per cent in interest, or $50,000,000 annually, $1,500,000,000 during the life of the loan, together with a further saving of interest upon the bonds drawn for redemption, and also a reduction of the total debt in the course of its life by $120,060,000.

I have suggested a $25,000,000 annual appropriation for premiums, but this is only tentative and my plan contains none of the variations common to the many European issues, but upon the basis I suggest there has been prepared by Mr. F. Y. Dalziel, of this city, a schedule of semi-annual drawings of 2,001 bonds—that is, 4,002 annually—with a suggested premium which will make the plan clear.

Appeal to Human Nature

The universal human instinct that reacts with promptness to the prospect of a prize is what I should hope to reach through Premium-Drawing Bonds. Mark the effort of the Government to touch this instinct in offering War Savings Stamps at $4.12 to be repaid at $5.00. It has been suggested that such drawings would be in contravention of existing laws, to which I can only respond —if the laws stand in the way of what is good for the United States and for its citizens, then those laws should be promptly repealed. I need not call the attention of your readers to the present force of the

Sherman Act, even though it has not been repealed; neither need I remind them of the deferred prosecution of the Steel Corporation, which if it is resumed after the war, will perhaps be based upon other arguments.

In the Revolutionary War

It is interesting to recall that the American Congress in 1776 instituted a national lottery, which was warmly advocated by Jefferson and other eminent statesmen of the day. It was designed for public works. The City of Washington set up a lottery in 1812 for public purposes; and lotteries were in vogue among the States until a comparatively late period. I think that the term lottery carries an opprobrium which at once creates a prejudice. This will have to be overcome. It will be a mistake to confuse a Government Premium-Drawing Bond issue with the lottery of the Louisiana type.

In connection with the suggested United States Premium-Drawing Bonds, it may interest some of your readers to glance at the terms of a City of Paris loan, say for example that of 1910, for 235,000,000 francs. This is represented by 602,564 bonds of 400 francs each, issued at 390 francs, redeemable in 71 years, yielding a rate of 12 francs per annum. Its purpose was for public works. One-tenth of the issue is in the form of bonds of 100 francs each, affording the right to one-quarter of the benefits attached to the full bond. There are six drawings annually, at two of which one bond draws 100,000 francs; two bonds draw 10,000 francs each and 58 (or 59) bonds draw 100 francs each; while the third drawing differs only in that one bond draws 200,000 francs.

Helping the Salesman

Fancy what an easy time our bond salesmen would have if their stock in trade were United States Government bonds at any rate you please, but offered to investors of any degree with a chance of drawing a premium that would make most of them independently rich for life! This is perhaps why it is so easy to sell life insurance. I cannot see that it is other than the speculative chance that makes life insurance so attractive. You can invest your money in sound bonds or put it away in a savings bank as safely and at a rate as favorable as in insurance, but the chance or the speculation of being able in the event of fatality to provide for your near and dear ones (or your creditors) which is offered by the life insurance policy, is, I do not doubt, the factor lacking in other investments which makes life insurance attractive. Here again, however, you have your good investment and your satisfactory rate of interest, but in addition thereto you have your speculative chance for gain, even at the cost of your life. I am not at all astonished when I am told that H. B. Rosen, the prince of policy writers, has written $14,000,000. In fact, I think it is small, even although it is the record.

Finally, a bond as sound as United States Steel Sinking Fund 5's is drawn at a premium by lot for redemption, offering the speculative chance of a rate per annum far above the 5 per cent of the face of the bond; and convertible bonds without number are priced in the market on the basis of the chance that they offer for their conversion into shares.

Subject for Discussion

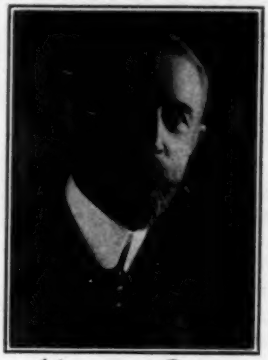
I think if THE MAGAZINE OF WALL STREET will open its columns to a forum on the subject of the United States Government Premium Bonds it will hear interestingly and in the affirmative from its most conservative readers.

PLAN FOR SEMI-ANNUAL DRAWING OF BONDS.

$1,000	at a premium drawing $500,000 twice a year	$1,000,000
10,000	" " " " 100,000 " " "	2,000,000
40,000	" " " " 50,000 " " "	4,000,000
100,000	" " " " 25,000 " " "	5,000,000
200,000	" " " " 10,000 " " "	4,000,000
400,000	" " " " 5,000 " " "	4,000,000
1,250,000	" " " " 2,000 " " "	5,000,000
$2,001,000	Total Premium Drawings per year	$25,000,000

Rubber—Past, Present and Future

Growth of a Remarkable Industry—Its Two Great Booms—Effects of War—Future of Rubber and a Prophecy



By HENRY C. PEARSON, F.R.G.S.,

Editor, *India Rubber World.*

Henry C Pearson

"AND what can you do?" asked King Solomon.

"Oh, Wisest of All Men," replied the visitor, "I can draw a white milk from the bark of trees and make it into an elastic gum. This I mix with brimstone and bake. This in turn I can fashion so that it is stronger than iron, more lasting than wood and stone, more flexible than leather. A cord made of it will stretch seven times its own length and return to its original shape without harm, and that thousands of times. Made into a cloak it will keep thee dry in a tempest of rain. It—"

But the executioner at a signal from the outraged king abruptly ended the tale.

A Remarkable Industry

Mentally volplaning from B. C. down to A. D. 1918, the elastic resin industry would be just as unbelievable were it not for its unthinking acceptance by a people surfeited by miracles. Yet the rubber industry is actually more remarkable than aviation, the birds taught us that; than wireless telegraphy, the simple utilization of sound waves; than indeed any of the great triumphs of this industrial era. It is the most amazing combination of chemical legerdomain and industrial wizardry of the twentieth or any other century.

A tree-milk becomes an elastic resin, and that in turn is transformed into a semimetal, with a wider range of qualities, applications, and values, than any other known substance. The dream of the philosopher's stone and the transmutation of metals is not only accomplished in parallel but in a manner that is of infinitely broader scope and of far greater potential value. And this, not in laboratory experiment but on a scale of such magnitude that in the United States alone the annual production reaches some $600,000,000 and furnishes employment and livelihood for 1,000,000 individuals.

Without going into the history of the business, the story of experiment, failure, and final success, in hundreds of attempts at new applications of the gum; let us glance at it as a whole today. Every industry, every profession, even "the most ancient," indeed every individual, utilizes rubber in some form. This calls for variety in treatment, in organization, and in factory appliance, hence the rubber industry as a whole is actually a baker's dozen of separate industries held together by the fact that they all use rubber. The divisions are: Tires, Mechanical Goods, Footwear, Clothing, Druggists' Sundries, Insulated Wire, Hard Rubber, Sporting Goods and Toys, Cements, Molded Specialties, Dental Rubber, Stamp Rubber and Notions.

Where Rubber Comes From

Getting back for the moment to the raw material, india rubber comes from a great variety of trees, vines and shrubs from

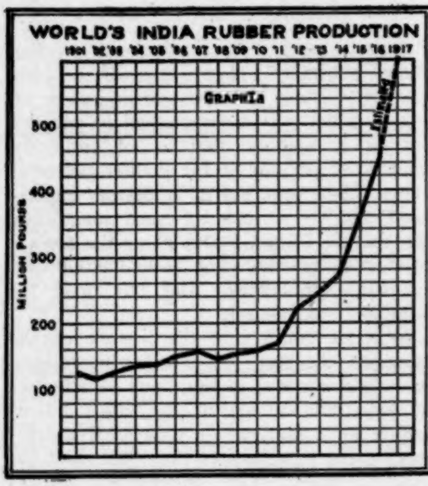
widely separated countries. Great tropical and sub-tropical areas, from Mexico to Uruguay in the Americas, from the Desert of Sahara to Cape Colony in Africa, from Southern India to Australia in the Far East, are vast rubber producers. These are exploited by natives wild, semi-wild, and tame, by the white, yellow and black races, and on a large scale. All supply rubber but of widely different quality and form. Thus: Amazonian pelles, Ceara tears, Nicaraguan strip, African silk, Gold Coast flake, Assam balls, Borneos, and Malay Plantation crepe, to cite a few only, are all types of rubber, and at the factory are to a degree interchangable. Of these sorts the United States imported in the fiscal year 1917, 333,373,711 pounds.

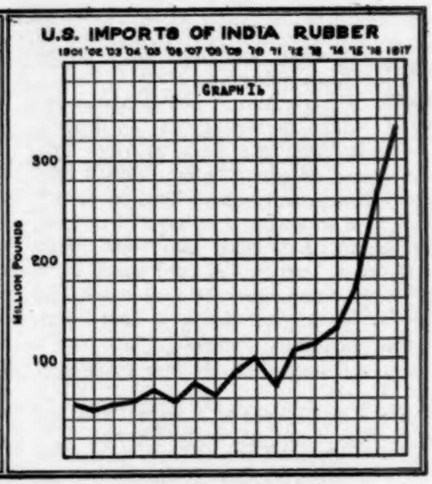
There is also reclaimed rubber, which means that worn out rubber goods of all sorts are collected, the rubber extracted and used over again. This reclaimed rubber is the basis of a great industry in itself, the American production exceeding in pounds the total importation of crude rubber.

But that is not half of the story. India rubber has the unique faculty of amalgamating with itself an almost countless variety of plastics, waxes, resinous gums, vegetable and mineral oils, earths, metallic oxides and sulphides, and taking from them qualities infinite in variety, and of great industrial value. Thus rubber and asbestos make a steam packing and brake lining similar but superior to any ductile metal. Other materials add toughness, others still add oil, acid, and alkali resisting qualities; one renders it as soft as an infant's cheek; another as hard as stone; certain of them add to its resilience, others render it as unstretchable as horsehide. Therefore the more than thre hundred million pounds of crude rubber that enter American factories emerge, plus fabrics, compounds and recovered rubber, a product from four to ten times as great, say, 1,000,000,000 pounds.

A Secretive Business

It will perhaps be apparent from the above to the most prejudiced pro-publicity mind, why the rubber industry has always been and ever will be, to a certain degree, a secret business. With infinite possibilities for substitution, for endless combinations of types of rubber and compounding materials, under the guidance of expert compounders and the ablest of industrial chemists, successful results are obtained in scores of different ways. Therefore there has grown up an industry possessed of individuality and initiative to a remarkable degree. These conditions and the consequent expertness, by the way, effectually smashed the "corners" in Para rubber attempted some years ago by Baron Gondariz and others, they also successfully curb "re-





stricted output" and the artificial price-raising of plantation rubber often hinted at by rubber planters' associations.

The rubber business has experienced two great "booms." Really they were one and the same and had to do with the successful development of the automobile. The sudden demand for pneumatic tires forced crude rubber up to three times its normal value. That in turn enabled plantations in the Far East to show profits of several hundred per cent. As a result, Mincing Lane and its followers went wild, and rubber plantations in Ceylon, the Federated Malay States, Java, Borneo and Sumatra sprang into being over night. So great was the planting that in the Malay States alone the almost negligible product of 1905 grew from hundreds to thousands of tons in ten years' time, and today forms one half of the world's product. This was the "crude rubber boom," hysterical but successful.

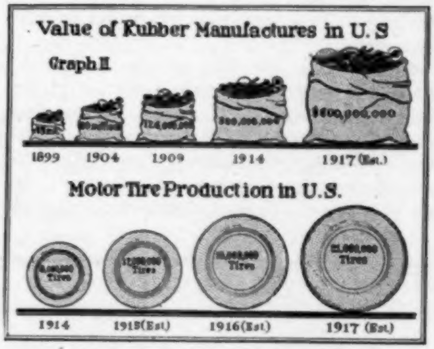
The Tire Boom

Meanwhile the other end of it, the tire boom, went on apace. Great factories were erected in a few weeks' time. Scores of new machines were invented to accomplish what had heretofore been done only by hand. Chemists, engineers, organizers, financiers, tackled the hardest job the rubber trade ever faced, and solved it successfully, on a huge scale, and without hysteria. It might be noted that certain tire stocks at one time selling below 100 rose to 200, 300 and even 1,000 as a result of this. Incidentally while turning out tires by the thousands the manufacturers so notably increased the quality, that the average of 1,500 miles of wear at the beginning rose to 5,000 and in individual instances to 10,000 and even 20,000.

This restrained but eminently successful tire boom, that sent agents all over the world to purchase rubber, that induced the building of cotton mills for fabrics, and the planting of cotton fields for raw material, that sent American dollars to the Far East to purchase going rubber plantations; this great rubber impulse that further eventuated in the installation of huge American-made plantations, as for instance one of 50,000 acres in Sumatra, by far the greatest in the world, gave to the rubber business a wonderfully keen appreciation of the word "Preparedness."

Hence "when in the course of *German* events" we were dragged into the world war the rubber industry was there with the goods. Trench boots and arctics were ready before marching feet were. Numbers of the great factories were already expert in making balloon fabrics on a large scale. Hundreds of miles of insulated wire were ready for use in the field. Aeroplane tires were standardized and built before the wing varnish was boiled. Ground sheets, ponchos, surgical supplies were already in stock. The trade, individual to the last degree, suddenly became unified, exchanged formulae, and gave over their plants, their men, and their knowledge to the Government.

To digress a moment as showing an un-



usual breadth of view—when England first entered the war, she placed an embargo upon india rubber. This was lifted through the efforts of the Rubber Association of America, as representative of the whole trade, the manufacturers agreeing to purchase crude rubber for their own use only and not for resale. So honestly did they live up to this agreement that while rubber arrived in greater volume than ever before, only 1/20th of 1 per cent. went astray.

The Future

As to the future there is sure to be a notable and steady increase in the pneumatic tire business. Today we own some 4,000,000 automobiles that use, say, 20,000,000 tires annually. Really the United States could afford 10,000,000 cars, which

would mean 60,000,000 tires. Add to this the increasing business in bicycle and motor cycle tires and the total is a large one. Nor is it at all probable that the theory that automobiles are "non-essentials" will be found tenable. The vast majority are used for business or professional purposes. Col. Samuel P. Colt, president of the United States Rubber Company, after a thorough canvass of the field, states that less than 10 per cent. of the automobiles in this country are used for recreation. Certainly this 10 per cent. will be more than offset by the greatly increasing business demands. It should be remembered also that the present notable rubber impulse is in the line of solid truck tires. Many believe that, peace or war, this bids fair to become the greatest single item of rubber manufacture, outclassing even the pneumatic tire in volume. Of course, its greatest development hinges on cheap motor fuel, but that in time is a certainty.

Glancing at the staple lines that go to make up the long established portion of the business, all show a steady and normal growth year by year. Serving as a foundation for this great industry, they also act as an efficient and ever present stabilizer. In times of stress certain lines that may be termed luxuries are eliminated to come back on a larger scale with the advent of cheaper raw materials.

Future Great Production

As to new rubber products there are many in sight, indeed certain have already arrived, as, for example, the rubber and fibre sole that is displacing the oak leather article. Be it noted, moreover, that when crude rubber can be produced in quantity and at a margin of profit analogous to sugar in peace time (a future certainty), the expansion of the business in old and new lines will infinitely surpass the product of today's, great as that is.

"But, what is one of the great future uses?" inquires the American Solomon.

"Oh, Most Shortsighted of Sovereigns," replies the writer, "I can take a tree milk and make it into an elastic resin. That resin baked with sulphur is turned into rosewood, walnut, mahogony, ebony, of the finest sort. Any rare wood can be simulated. It will not warp or check, it does not absorb moisture. Its sawdust and chips mold again into the first shape. Even the boards once out of use can be ground up and used again and again. I——"

"Sometime, perhaps," yawns the American Solomon.

SAVING THE CHIPS

If workmen are "known by their chips," Southern Pacific machinists did a lot of work last year. Twenty-two thousand dollars' worth of borings and turnings from machine tools were collected and sold in 1917 by Edmund Burke, material sales agent for the company. The fact that a minor waste product of the shops runs into so much money shows how vast are the operations of the railroad in this war program of car and engine construction.

These are but a small item in the total that the Southern Pacific reclaims from waste material in a year. In 1917, the sum thus saved amounted to more than a million dollars.

Under General Storekeeper H. G. Cook, the store department is constantly at work collecting worn out articles from all over the Pacific System and assembling them at convenient points. Here they are sorted over, some to be re-distributed, some to be worked over into other forms and others to be sold as scrap.

In time of war economy of this sort not only saves money for the company, but also eases up the demand on the general market and releases that much new material for other industries.

The railroad considers nothing too small to reclaim. Old boiler tubes, for example, are made into locomotive pilots, or are flattened and bent into angle iron, or cut into washers. Exhausted dry cells are stripped of their brass fittings and the carbon in them makes an electrode for electric welding. Station agents send in scrap car seals so that the lead can be recovered from them. Section foremen pick up the lead straps from exploded torpedoes for the same purpose. Old and greasy waste is treated in a steam vat and separator which not only yields back the serviceable fabric, but also reclaims the oil from warehouse trucks, handcars, etc. Even the old brooms are turned in. Section foremen can use the stubs for cleaning switches and the handles are made into bales for buckets.

MONEY--BANKING--BUSINESS

The Proposed War Finance Corporation

Does It Involve a Possibility of Dangerous Inflation?

By G. C. SELDEN

THE bill prepared by the Secretary of the Treasury for the creation of a War Finance Corporation has aroused lively discussion among bankers and economists. Hardly any one questions the desirability of the main purpose of the bill, which is to have the Government pass upon and license, or refuse to license, new issues of securities by private corporations; make advances for periods not exceeding five years to banks which have made loans to industrial companies or individuals whose operations are directly contributory to war work; and in exceptional cases make loans direct to such companies or individuals.

There can scarcely be any argument as to the necessity of some such plan. To win the war, war work must be forwarded in every possible way. With the Government frequently in the market for capital by large issues of bonds, private corporations will find it difficult to supply their own needs by the ordinary methods of offering securities to the public. Government help is essential.

And the restriction of security issues for purposes not connected with the war is equally important. The war must be our sole purpose until it is over. Industrial activities not contributing to that end cannot be permitted to interfere.

The bill also proposes to make loans to savings banks for periods not exceeding 90 days—and it is not improbable that this period may be lengthened by Congress. This is to aid the banks under the possible further depreciation in the price of bonds owned, so that they may not be compelled to sacrifice good bonds at unreasonably low prices in order to pay their depositors. It is thought quite possible that future Government bond issues may result in the withdrawal of savings bank deposits in greater volume than during the flotation of the First and Second Liberty Loans. The banks ought not to be compelled to sell their bonds at absurdly low prices in order to get the money to meet such withdrawals, if they should occur.

Possibility of Inflation

The argument arises in connection with the further provisions of the bill, to the effect that the proposed corporation may issue its interest-bearing notes to an amount outstanding at any one time of eight times its capital. Since the proposed capital is to be $500,000,000, this would mean $4,000,000,000 of such notes. Further, Federal Reserve Banks are to be permitted to deal in these notes, to rediscount paper secured by them, and with the approval of the Federal Reserve Board to *use the notes as the basis of currency issues.*

This is a somewhat startling proposition. The rediscounting powers of the Federal Banks already permit a very large issue of currency based on rediscounted paper. Is it necessary to authorize a further tremendous increase in the possible quantities of such currency that might be issued?

Would not such a great inflation of our money supply, if it should occur, cause a further general rise in prices? Our general price level is already more than double that which obtained immediately before the war. Every great change in the price level causes much disturbance, many difficult readjustments, and entails hardships on particular classes. What is to be gained by a further inflation of money and prices?

On this subject the two leading interests in Wall Street have expressed themselves as holding opposite views. The National City Bank discusses the matter as follows:

> These are extraordinary times and nobody wishes to withhold from the administration at Washington any degree of authority which may be necessary to secure the most effective mobilization and use of our resources during the war, but this measure clearly contemplates the use of credit in a manner and to a degree which in

our opinion cannot be advantageous to the country under any conceivable circumstances.

We do not believe there will be any occasion to inflate the credits of the reserve banks or the currency of the country to the extent indicated, or that it can be done without disastrous results. It is undoubtedly important to support the essential industries of the country and bring them to the highest possible efficiency, but the printing press is not an effectual agency for accomplishing that purpose. That end must be accomplished by organizing, co-ordinating and directing the industries and concentrating them upon war work.

Moreover, as this is the view which the Federal Reserve Board and the Secretary of the Treasury have tenaciously held and ably advocated in the past, we feel bound to assume that they are not really intending to depart from it so far as the text of this measure would indicate. We think it a mistake to even countenance such a policy by providing for its possible adoption.

We recognize one condition under which it might be desirable that sound investment securities should be accepted by the reserve banks as the basis of loans and currency issues. That is in case of a great crisis which included a run on the member banks or savings banks by depositors. It is conceivable that this might occur at a time when in some localities the banks might not have an ample supply of the paper now defined as eligible for re-discount, in which case, and for no other purpose, the public interests would be served if municipal and railroad bonds and other high-class securities, were accepted. Not a few people regretted to see the Aldrich-Vreeland act expire completely for this reason. The plan proposed by the National Monetary Commission provided for such issues under extraordinary conditions, by special permission of the Secretary of the Treasury.

There is a distinct difference, however, between the use of currency to pay off depositors and its use to increase the purchasing facilities of the community. When used to pay off depositors there is no inflation of credit, but merely a substitution of one form of credit for another, and it occurs at a time when contraction and liquidation are the order of the day.

The refunding of railway and other obligations maturing in the near future does not involve any serious competition with Government financing for they do not require a net amount of new capital. If they are paid off by fresh capital an equal amount of old capital is released. Their successful refunding is almost wholly a matter of interest rates, and a guaranty by the War Finance Corporation or by the Government direct would certainly take care of such cases.

The only demands for capital which come into competition with the Government are those which require the investment of labor and materials and whatever hocus pocus may be resorted to for obtaining credit it is certain that labor and materials cannot be conjured up by legislation. They must be saved from other uses, and saving is not promoted by the mere expansion of credit.

The Opposite View

On the other hand J. P. Morgan & Co., through a statement by T. W. Lamont, take an entirely different view:

Government loans have naturally and properly absorbed the chief investment power of the country. Yet there are many industries today, contributing directly or indirectly to the efficiency of the community, that urgently require new capital for the extension of plant facilities—capital which their banks are in no position to furnish and which should normally come from the investing public.

How shall we meet such a situation? The proposed measure is one answer to it, and unless we have a better one to propose would it not be well for the community to study it and thus determine if it is not worthy of earnest and immediate support?

We hear the bill criticised on various grounds. One is that the Secretary has too much power in naming the Board of Directors, with the approval of the President; the Directors, with the broad powers that the bill confers, having wide control over industry throughout the country. On this point my mind is open to any fresh suggestion. But I am not fearful that the Secretary will name incompetents, and I believe the method of selection proposed will put the corporation into working order a little sooner than any other. Expedition is what we require in this situation.

There has been a great deal of talk about possible inflation as a result of this measure, and some of our best newspaper economists have pointed out ways in which inflation might result. But here again I haven't seen any methods proposed to accomplish the ends desired and at the same time avoid all chance of minor evils resulting. When the Government took over the operation of the railways it was easy to see disadvantages that would probably result. But the advantages presumably outweighed the drawbacks. And so it is with every war measure that the need for prompt execution forces upon the country. Moreover, in this particular case I see no reason why, with prudent handling, the workings of this War Finance Corporation should lead to inflation. At least, if inflation results, I believe it will be less of a factor than the inflation that we should see if we compelled the banks, already carrying a large amount of loans, to assume a further considerable loan expansion to supply funds which ordinarily would come from private investors.

The proposed measure provides that none of the Directors may be Directors of any other corporation. Most persons who realize the extremely important functions to be performed by the Directors of this corporation believe that the Government will wish to commandeer as Directors of it the most experi-

enced, the wisest men available in the whole country, men who may at present be the heads of large enterprises in which they have shown their prudence and skill, men who would gladly volunteer their services to the Government without compensation, but who ought not to be compelled simply for the space of the war to forego, very likely for all time, their present positions and future means of livelihood.

Among its other advantages, the new measure contains provisions of the utmost value to the preservation intact of our whole savings-bank system, whose workings, with the present narrow market for corporate bonds, has been a source of some concern; and the whole measure, as I said before, is, in my judgment, well calculated to afford to the situation the relief which it critically needs.

It is to be noted that the real question is as to the amount of discretionary power which is to be placed in the hands of the Federal Reserve Board. The issue of $4,000,000,000 of notes would, it is true, result in a further expansion of credit, since the notes are to be based on a capital of only one-eighth of that sum. That is perhaps unavoidable in war. At any rate no nation ever did succeed in avoiding it.

But when it comes to the rediscounting of these notes and the issue of currency based on them, the bill provides that such currency is to be issued only "with the approval of the Federal Reserve Board." Actual currency inflation could take place only so far as the Federal Board permitted.

It is hard to see what good further currency inflation could do. What is needed to fight the war successfully is not more money but more goods, more raw material, more labor power. Money is useful only as it facilitates, or as one might say lubricates, the industrial machinery. And the Federal Banks now have the facilities for issuing additional currency enough to meet all the needs of industry which seem at all likely to arise.

Still another important question is: How can this tremendous War Finance Corporation be wound up when peace comes? The problem will have to be left for peace solution; but if it is complicated by big issues of currency based on these War Finance notes, that will make the solution all the harder.

The need for the War Finance Corporation is obvious enough. But the bill should be so amended as to eliminate to the greatest possible degree the undesirable result of currency inflation.

THE MYTH OF "A RICH MAN'S WAR"

Since pacifism and semi-seditious agitation have become both unpopular and risky, the propagandists of disunion have been at pains in endeavoring to insidiously affect public sentiment by spreading the fiction that America's entrance into the war was fomented by "big business" from selfish reasons and for the purpose of gain. In the same line of thought and purpose they proclaim that this is "a rich man's war and a poor man's fight" and that wealth is being taxed here with undue leniency as compared to the burden laid upon it in other countries.

These assertions are in flat contradiction to the facts.

Nothing is plainer than that business and business men had everything to gain by preserving the conditions which existed during the two and a half years prior to April, 1917, under which many of them made very large profits by furnishing supplies, provisions and financial aid to the Allied nations. Taxes were light and this country was rapidly becoming the great economic reservoir of the world.—*Otto H. Kahn.*

Leading Opinions

About Financial, Investment, Banking and Business Conditions

"R.R.'s Marching to Gov't Ownership."—H. Johnson

Senator Hiram Johnson of California, in his first speech of consequence before the Senate, bitterly assailed the government plan of compensating the railroads as proposed.

Asking "upon what theory is the maximum of sacrifice demanded of all the rest of the nation, and the maximum of compensation accorded to our railroads?" he declared that the return to be guaranteed the railroads was outrageous and extortionate.

—New York *Tribune.*

PERMANENTLY DISABLED.

Although he approved the President's act in taking over the railroads, Senator Johnson asserted that the full step might as well have been taken and government ownership substituted for government control.

Senator Johnson declared that "the nation is marching straight to the goal of public ownership."

To the charge that "politics would play an important and injurious part in the management of the roads," Senator Johnson replied, "I'll risk any kind of politics under Government ownership rather than the politics I have seen under private ownership.

"I would now take the inevitable next step in Government control of our railroads, and do whatever might be essential to make that Government control permanent Government ownership, or at least leave the way open so that immediately upon the termination of the war we might follow to its logical conclusion what already we have partly done.

"The great trunk lines of the country must be nationalized and there must be one central directing power. It is plain that this nationalization cannot be accomplished by competitive roads. There must be an absolute unity of purpose, and with private ownership such coordination and nationalization are utterly impossible. The conclusion, therefore, is irresistible that we must ultimately do in time of peace what we have been driven to do by stress in time of war, and the logical outcome is of course Government ownership."

Government control of the railroads cannot be expected to meet with success, Senator Kellogg (Minn.) declared in the Senate. Senator Kellogg took a firm stand against permanent government ownership of the railroads, and warned the nation against "the rising tide of socialism which threatens the foundation of democracy the world over."

"This bill involves the most far reaching and momentous economic transition that ever has taken place in so short time," said Senator Kellogg. "What effect it will have upon our industrial and political structure, no one, of course, can accurately tell; but judging from other nations, and from the political experience in our own country, it cannot be anticipated that it will meet with success."

Senator Kellogg insisted that the railroads had done extraordinarily well under the conditions existing since the outbreak of the war. "There is a rising tide of socialism today," said Senator Kellogg, "which threatens the foundations of representative Democracy the world over."

Prediction that the railroads never again will be permitted to operate under the old competitive system of the last thirty years, but that they will be nationalized and run by private owners under government supervision was made by Senator Watson of Indiana, addressing the Senate on the railroad bill.

"I believe the railroads will be nationalized," said Senator Watson, "that they will be operated as one transportation system; that they will be permitted to pool their traffic and their earnings; that useless lines will be abandoned; that all the property and all the equipment which every railroad had heretofore provided for its operation and its own use will be used in common by all the other railroads in the nationalized system.

"I believe that the Government will control

and finance this unit and that private ownership will be continued in the future as in the past. In short, complete Government control with private ownership of the property controlled."

Bankers See War's End This Year.

"Banking interests and those who are dominant in the larger business affairs of the United States strongly believe that the war will be terminated within the present year. Germany is undoubtedly weakening. She is up against a stone wall. If she risks a strong offensive in the west and meets with decisive defeat, she is through, and the German government will crumble and peace will be forced. She cannot win and the Allies will not give up."

This statement was made in an interview at Atlantic City by George McNeir, a director of the Bank of Manhattan Company, of New York, trustee of the Bowery Savings Bank, which has the largest surplus of all American savings banks, and also vice president of W. & J. Sloane, of New York. "Bankers and business men in high places," he added, "are firmly convinced that business in America will continue good for an indefinite period. The deposits in the savings banks indicate that the working men are not only earning high wages, but that they are saving them. The deposits are very heavy at this time of the year when normally they would be light. When the war is over there will be a great demand for everything that America can produce, and that will be an important factor in continuing prosperity in this country."

Underwood Warns of U. S. Autocracy

Senator Oscar W. Underwood of Alabama warned the Senate against allowing America to become an autocracy, while her soldiers were going to France to make the rest of the world safe for democracy.

Senator Underwood made specific application of his doctrine to the Railroad Control bill, upon which he was speaking. He told the Senate powers conferred in that bill should be expressly limited and defined, in order that the President would not have the making of rules for governmental operation of railroads during Federal control.

After paying a warm tribute to the united and patriotic response of Congress to the nation's war demands in the early days of the war, Senator Underwood said:

"The time has come to pause and consider. The United States has checks and bounds to protect it from autocracy, provided Congress will uphold and maintain the sovereign powers of the people; but when Congress reaches the point where it is prepared to abandon constitutional limitations and surrender government of law for government by a man, then danger is ahead for the people of the United States. We know democracy can never be safe in the hands of an autocratic Government, when the government is government by men and not by laws."

Proposed Tax on English Capital

The question of a possible tax on capital was discussed in the House of Commons recently by Chancellor of the Exchequer A. Bonar Law.

Referring to the question of a possible tax on capital and his former allusion to the subject when receiving a trade union deputation in private, the Chancellor said he looked on the question then and now as an academic question.

—New York *American.*

UP TO THE SWHTCHMAN!

"If it were possible to save life by a conscription of wealth I do not think there is a man in this house who would hesitate. But it is impossible, and the contrast is absurd. The wealthy classes have certainly paid their full toll in life, and therefore there is no such contrast. This idea of a capital tax is put forward with the motive of socializing the whole of our industrial life. But a fiscal expedient, whether good or bad, is not to be judged by the motives of those who think it would suit their purpose.

"As a matter of fact, if ever a government were established in this country which desired to take that course, I do not think it would be influenced by precedent any more than the present Russian Government. Indeed,

the fact that it had been done before would be to them a reason for not doing it.

"Further, if that sort of thing were to be done and the Government were supported in doing it, it could be done in effect quite as easily by using the income tax and super tax as a means of confiscation. It would be perhaps more easy in that way, because a tax on capital, being a new idea, would very likely arouse more opposition. I do not in the least wish a subject like this to be treated as a practical question now. All I claim is that there is nothing confiscatory about it, if the thing is good otherwise."

Opportunity for American Bankers

The future of Italy may be linked with that of the United States if only American bankers will take the trouble to look into the possibilities which she has to offer, writes Luigi Criscuolo in *The Bankers' Magazine.*

The amount of interest there is in Italy with respect to American capital can best be shown by the fact that following the publication of the writer's first article on Italian finance and industries in this magazine last July, he received propositions from Italian interests aggregating fifty million dollars for electric railway and hydro-electric construction. The article is commented upon at length in the *Revue Financiere & Economique d'Italie,* which is the leading financial authority in Italy and the leading factor in spreading propaganda for the securing of foreign capital to develop Italian resources, other than German capital. The writer hopes that this article may rouse American bankers and capitalists to the realization that there is a great necessity for thought on international lines at this moment.

Urges Electric Power for R.Rs.

E. W. Rice, Jr., President of the General Electric Company and President of the American Institute of Electrical Engineers, in opening the sixth mid-winter convention of the institute urged the nation-wide electrification of the railroads as the solution of the fuel and transportation problems of America.

Mr. Rice asserted that electrifying the railroads would mean a saving of about 100,000,000 tons of coal a year to the country in addition to saving 40,000,000 barrels of oil. The hauling capacity of the roads would be increased by the use of electric engines, he said, to a marked degree.

"Where electricity has been substituted for steam in the operation of railroads," said Mr. Rice, "fully 50 per cent. increase in available capacity of existing tracks and other facilities has been demonstrated. This increased capacity has been due to a variety of causes, but largely to the increased reliability and capacity, under all conditions of service, of electric locomotives, thus permitting a speeding-up of train schedules by some 25 per cent. under average conditions.

"It is estimated that something like 150,000,000 tons of coal were consumed by the railroads in the year 1917. Now we know from the results obtained from such electrical operation of railroads as we already have in this country that it would be possible to save at least two-thirds of this coal, if electric locomotives were substituted for the present

—*Saturday Evening Post.*

THE GREASED PIG.

steam locomotives. On this basis there would be a saving of over 100,000,000 tons of coal in one year. This is an amount three times as large as the total coal exported from the United States during 1917."

Mackay Opposes Gov't Wire Control

Efficient operation of telegraph systems renders government ownership remote, said Clarence H. Mackay, president of the Mackay companies at the annual meeting held at Boston.

Mr. Mackay declared that the agitation for Government ownership of the railroads is predicated upon a complete breakdown in transportation, developing from financial manipulation, inadequate rates and conflicting and onerous legislation.

Pointing out that the telegraph business is the subject of keen competition, making efficient service essential, Mr. Mackay asserted in the present war emergency the telegraph companies have attained top notch efficiency.

"The railroad situation is no criterion," said Mr. Mackay in discussing the demand for Government ownership of public utilities.

"In any event, the guarantee which the Government has given the railroads shows that in any plan it may have for Government ownership or control it is prepared to deal fairly with the shareholders.

"You trustees believe, however, whatever is the outcome of the present railroad situation, that in the absence of any real demand on the part of the public for Government control or ownership of the telegraphs, the shareholders may feel reasonably certain that the telegraphs will remain under the present private control."

Worth-While Banking and Brokerage Opinions

KNAUTH, NACHOD & KUHNE—The government has entered upon an interesting campaign to mobilize American labor. Through the means of the expanded National Employment Agency, a canvass is being made of all States with the idea of listing available help and bringing all classes of competent workers in touch with the government. A definite movement has been launched to secure 250,000 men for work in shipbuilding yards. The United States could utilize to good advantage 1,000,000 competent workers at the highest wages ever paid for skilled labor. It is evident from what has developed in the United States and Europe that skilled man-power will be in urgent demand during the war period and after the work of restoring the world to a peace basis is seriously taken up.

So long as the war lasts, business conditions must be subject to government interference. With the new supervision of the foreign exchange business in this country and other regulations adopted as "measures of war," the situation has come to be quite abnormal. The country has responded in a remarkable way to the demands made by the Federal Fuel Administration for "heatless Mondays" and more rigid regulation to safeguard the nation's fuel supply. There are many strong points in the situation and it is evident that the technical position of both the stock market and the bond market has been materially strengthened. Further than this, it is impossible to say anything, owing to the uncertainties of war and the extraordinary legislation under discussion at Washington.

GOODBODY & CO.—The more important of the factors that tend to check the advance in the prices of stocks and bonds and that will almost surely prevent a much further advance, until the end of the war is more clearly in sight, are—

—Financial America.

SEE-SAW.

1. High money rates and the fact that they must continue while the war lasts and while every surplus dollar will be taken for war purposes.
2. Disorganized industry, because of labor, fuel and food shortage.
3. Labor unrest, partly due to the high and still rising cost of living.
4. The high and rapidly rising cost of production.
5. The economic benefit to Germany of "peace" with Russia and Roumania.
6. The fear that Germany may break through the Western front.

All things considered, we expect the present advance to hold fairly well, until we have good news from Europe. We do not think that bad war news (unless sufficiently bad to indicate Germany's final success) would

greatly depreciate the prices of stocks. We are confident that securities are in strong hands and that the public has not, as yet, become sufficiently interested to make it worth while for the big speculators to attempt another shake-out. The public is only beginning to come into the market. Brokers are now borrowing but little more of the banks than they were one or two months ago.

HAYDEN, STONE & CO.—A feature that might be mentioned as in favor of stocks is that most companies have now pretty nearly adjusted themselves to higher prices. No large further absorption of earnings into working capital should be necessary; although this will have to be maintained at large figures, the greater part of earnings from now on should be applicable to dividends.

—*Retail Coalman.*

IS GOVERNMENT CONTROL OF RAILROADS THE SOLUTION?

There is one danger in the situation; the war has stimulated activity in many lines, particularly in some not especially active before the war. On the great turnover of business of this kind, even a fair margin of profit runs into very large earnings on some stocks. This type of business is the result purely of war conditions. It is unreasonable to expect it to continue in any such volume after the war.

Reports for the first quarter of the year, reflecting for well-known reasons a distinct let-down in corporate activity, will be disappointing, but Spring will soon be here, and business moving more freely.

The situation, as a whole, is one where any great horizontal uplift, such as occurred in 1915, can hardly be expected, but it is one where many of the weak points, resulting from the war markets of 1915 and 1916, have been eliminated, and where, henceforth, individual value should count as it has not counted in the recent past.

SHONNARD, MILLS & CO.—The technical position of the stock market continues strong. While prices have worked higher during the past fortnight, public participation in the market has not expanded to any great extent, which means that stocks are still lodged in strong hands. Operations during the past two weeks have been confined largely to specialties, and the ease with which this class of securities has advanced clearly indicates that the uptrend is the one of least resistance.

Steel stocks have continued heavy; but we believe that they should be bought. The reason for their lagging tendencies has been the extreme difficulties steel mills have had in maintaining their production. What with the handicaps of extremely cold weather and acute car congestion, some steel plants recently have been operating as low as 35% of capacity. Iron and steel trade journals during recent weeks have been emphasizing the utter demoralization in the industry; but the very small increase in the volume of unfilled orders on the books of the U. S. Steel Corporation during the past month bears testimony to the slow but steady improvement in operating conditions. It is now reported that the leading interest in the industry is now operating at more than 50%.

KEANE, ZAYAS & POTTS—In the course of one of these letters not so long ago we took occasion to comment at some length on the fact that securities of the Standard railroads were selling far out of line on unfounded fears that Government control meant confiscation of earnings. These securities are still out of line although there is indubitable evidence that net income equal to the average of that for the three years ended July 30 last, is to be guaranteed to the carriers. The opportunity to acquire these securities at present prices, however, is destined to be of short duration. The three-year period selected as a basis is one in which net earnings made a new high record after a long period of very lean pickings; it is more favorable to the railroads than any other consecutive three-year period in the last fifteen years, and carries with it the assurance of a continuance of dividends at the usual rates.

To get the broadest point of view on the security market read at least three standard financial publications regularly. In the course of a year or two there is a liberal education on securities to be gained in this way. The combined counsel of the writers on investments in the best periodicals is about as good as any obtainable.

The Business Situation

Relative Dullness, But Some Improvement Beginning

THE serious reduction in business activity through the winter, caused by unprecedented cold and snow, interfering with transportation and labor conditions, still continues, but with indications of early relief. There can be no doubt that the arrival of warmer weather will bring a sudden change for the better. There is no lack of demand, for the Government's unlimited war demand fills up all the gaps left by economizing on luxuries and limitation of foreign trade.

We have not yet fully adjusted ourselves to war conditions. In fact, there will have to be a constant readjustment to new conditions as long as the war lasts. But we are making substantial progress, and the dislocation of labor and materials will be less as the spring advances.

Bank clearings show the reduction in business activity—for it is to be borne in mind that the rise of prices would naturally cause an increase in clearings even with a stationary volume of business. Bradstreet's Commodity Price Index, Feb. 1, stood at more than double the level of June, 1914, the exact advance being 110%. There was some decline in the English price level, which was rather an unexpected development. Our own price advance is the more extraordinary because the prices of many products are now held at a fixed level by the Government.

The 6% call money rate is a natural result of the Government's continued absorption of capital, but higher call rates are likely to be prevented by rediscounting of commercial paper with the Federal banks and the issue of currency based on it.

Comparatively small business failures show that the temporary dullness has not adversely affected the position of the average business man. Building operations are naturally enough very small. We are too busy with the war to stop to build houses. This condition manifests itself in scarcity of materials and labor.

	Money Rate—Prime Commercial Paper, New York.	Call Money Rate at New York.	Federal Banks* Total Reserve on Notes and Dep.	Bradstreet's Index of Commodity Prices.	English Index of Commodity Prices.
Feb., 1918	5⅞%	6%	65.6%	18.08	5,785
Jan., 1918	5¾	4⅜	65.1	17.96	5,845
Dec., 1917	5⅝	4	66.0	17.81	5,768
Feb., 1917	4⅛	2½	84.3	13.94	4,953
" 1916	3	1¾	....	11.14	3,840
" 1915	3¾	2	....	9.66	3,003
" 1914	4	1⅞	....	8.86	2,618

*About middle of month named.

	Total Bank Clearings of U. S. (Millions).	Bank Clearings of U. S. Excluding N. Y. City (Millions).	Balance of Gold Movements—Imports or Exports (Thousands).	Balance of Trade—Imports or Exports (Thousands).	Building Operations, Twenty Cities (Thousands).	Business Failures Total Liabilities (Thousands).
Jan., 1918	26,534	11,815	....	....	*16,500	17,985
Dec., 1917	26,530	11,917	Exp. 2,072	Exp. 360,965	16,980	14,739
Jan., 1917	25,641	10,514	Imp. 38,206	Exp. 371,531	34,310	22,296
" 1916	20,138	7,811	Imp. 4,794	Exp. 145,685	34,900	21,601
" 1915	13,483	6,195	Imp. 6,204	Exp. 145,730	26,693	50,108
" 1914	16,198	6,826	Imp. 3,528	Exp. 49,323	29,819	37,285

*Estimated.

	U. S. Steel Unfilled Orders* (Thousands).	Wholesale Price of Pig Iron.†	Production of Iron (Tons) (Thousands).	Price of Electro. Copper Cents.	Winter Wheat Condition.
Feb., 1918	.....	35.90	.....	23.5	....
Jan., 1918	9,477	35.90	2,412	23.5	....
Dec., 1917	9,382	35.90	2,883	23.5	79.3
Feb., 1917	11,474‡	27.42	3,151‡	31.7	....
" 1916	7,922‡	17.90	3,185‡	26.4	85.7§
" 1915	4,248‡	12.40	1,601‡	14.4	87.7§
" 1914	4,613‡	13.81	1,885‡	14.5	88.3§

*Last day of mo. †No. 2 Southern at Cincinnati. ‡January. §December.

BONDS AND INVESTMENTS

High-Yield Listed Bonds

Opportunities Offered in the Present Market to Acquire Reasonably Safe Bonds Paying Approximately 8% to 10%

By F. M. VAN WICKLEN

IT generally happens that when exceptional opportunities are offered in the security markets, few people have the money to take advantage of them. Their funds are tied up in one way or another and are not available for the bargains at hand. The present time, however, differs somewhat from the ordinary situation. Although capital is in demand, bond salesmen report investors fairly well supplied with funds which they are holding liquid for future eventualities. Whatever these may be, no one seems to be able to point out with any certain conclusion, yet investors are timid about parting with their funds during these confusing times, preferring, as usual, to wait until conditions are again normal. However justified they may be in pursuing this conservative course, they miss the bargains.

The general opinion among experienced judges of the bond market is that bond prices are trailing bottom. The belief is that fixed obligations are due for substantial improvement over a long pull. If this is so, all grades of fixed obligations should be affected, including practically all junior issues and in addition those so-called "Income" and "Adjustment" issues which are receiving interest in full or in part.

This brings in view many bond issues listed on the New York Stock Exchange which at present prices yield very handsome returns. Bear in mind, it is not every one who should buy securities of this character, which are necessarily speculative. The element of risk is present. Yet there are those who can afford this risk and for them these opportunities exist.

The following is a list of some of the more attractive of these high yield bonds listed on the New York Stock Exchange:

Chicago, Milwaukee & St. Paul Ry. Co. Gold 4s, due 1925.

Present price—79, yielding about 7¾%.

These bonds sold at 96¼ last year. They are secured by deposit of an equal amount of the company's 4 per cent. bonds (European Loan). The deposited bonds are secured by a mortagage on the property equally with the company's General and Refunding Mortgage and are legal investments for savings banks in New York and elsewhere.

Cleveland, Cincinnati, Chicago & St. Louis Ry. Co.

Debenture 4½s, due 1931.

Present price—72, yielding about 8%.

These bonds are a direct obligation of the company. The indenture under which they are issued provides that the company will not make any new mortgage on its railroad, other than upon its leased lines, without including these debentures equally with such new mortgage. The bonds are followed by $10,000,000 preferred and $47,000,000 common stock. The property is controlled by the New York Central which owns $30,200,000 of the common stock. For the year 1916 the company reported a balance over all fixed charges of $8,000,000 and for the 11 months ended November 30, 1917, a balance of $5,000,000. The road has excellent prospects. These bonds sold at 93¾ in 1912 and at 90¼ in 1916.

Erie Railroad Co.

General Mortgage Convertible 4s, "D,", due 1953.

Present price—50, yielding about 8½%.

These bonds are a mortgage on the property of the Erie subject to prior liens. They are convertible into Erie common stock at $50 per share up to October, 1927. They

were brought out in 1916 at 85. For the years 1915 and 1916 Erie earned a surplus over all charges of $4,631,912 and $6,016,219, respectively. Although gross earnings for 1917 have shown a substantial increase over those for 1916, net earnings have fallen off on account of increased costs, etc. As a result these bonds have declined over 30 points from their issue price. Their present price has no doubt discounted the unfavorable factors and there is a very fair chance that Government operation will directly or indirectly be of inestimable benefit to this property. Erie is now double tracked from New York to Chicago and is one of the railroad properties that should make great strides forward when the time arrives for better treatment for the railroads by the Government.

St. Louis & San Francisco Ry. Co.

Adjustment Mortgage 6s, due 1955.

Present price—67, *yielding about.* 9%

These bonds are secured by a mortgage on all the property of the company subject to prior liens. Their interest is payable only if earned but is cumulative. Interest in full has, however, always been paid. They are followed by $35,000,000 Income 6 per cent. bonds on which full interest has been paid to date and by $58,000,000 capital stock.

Earnings of the new Frisco System are very substantial. For the 6 months ended December 31, 1917, net income available for payment of interest on these bonds amounted to $4,633,558, compared with interest of about $1,162,000, or four times the required amount. In 1916, these bonds sold at 89½.

Norfolk Southern R. R. Co.

First & Refunding Mortgage 5s, due 1961.

Present price—63½, *yielding about* 8%.

These bonds ($12,870,000 outstanding) are secured by a mortgage on the entire property subject to only $3,891,000 prior liens. They cover as a first lien a substantial mileage, also equipment and lumber property valued at over $11,500,000. It is officially stated that over $10,600,000 in excess of the entire bonded debt has been expended on this property. For the year 1916 surplus over fixed charges amounted to $505,000 and earnings for 1917 show increases over the previous year. These bonds are followed by $16,000,000 capital stock. They sold at 101 in 1911 and at 82⅝ last year.

St. Louis Southwestern Ry. Co.

First Consolidated Mortgage 4s, due 1932.

Present price—60, *yielding about* 9%.

These bonds are secured by a mortgage (practically closed) on the property of the company, subject to prior liens, and are followed by an issue of First Terminal & Unifying Mortgage 5 per cent. bonds. This company reported a surplus over all fixed charges for the year 1916-1917 of $3,120,000, compared with $1,267,000 for 1915-1916. Net earnings for the 12 months ended December 31, 1917, were $4,815,000, an increase of $1,115,000 over 1916 earnings.

Surplus earnings are being put back into the property and the company is building itself up instead of paying dividends. The road is receiving better management than formerly.

Chesapeake & Ohio Ry. Co.

Convertible (Mortgage) 4½*s, due* 1930.

Present price—71, *yielding about* 8⅜%.

These bonds are secured by a direct mortgage on the property of the company, subject to prior liens. They are convertible into stock of the company at 100 up to February 1, 1920. Although this conversion feature is of doubtful value, these bonds regarded from an investment standpoint alone seem amply safe. For the 11 months ending November 30, 1917, the company reported a surplus over fixed charges amounting to approximately $6,470,000, which is close to the surplus for the corresponding period of 1916, the best in the company's history.

The Chesapeake & Ohio management has been putting surplus earnings back into the property and in March, 1916, it decided to appropriate out of net income for the ensuing 3 years a sum not less than $7,500,000 for additions, betterments, etc. Dividends at the rate of 4 per cent. per annum are being paid on the company's $63,000,000 stock, earnings on which for the year 1917 are estimated at upwards of 11 per cent.

St. Paul & Kansas City Short Line R. R. Co.

First Mortgage 4½s, due 1941.

Present price—58, *yielding about* 8¾%.

These bonds are secured by a first lien on what is regarded as valuable mileage, affording the Rock Island lines the shortest and most direct route between Kansas City and St. Paul and Minneapolis. They are guaranteed principal and interest by the Chicago, Rock Island & Pacific, which controls and leases the property, and were left undisturbed in the recent Rock Island reorganization. This is an indication of the importance of the road to the Rock Island System nothwithstanding its high bonded debt of $67,760 per mile. These bonds were brought out in 1911 at 93½. Selling by foreign holders is said to have contributed largely to their present low price.

Denver & Rio Grande R. R. Co.

Improvement Mortgage 5s, due 1928.

Present price—75, *yielding about* 8¾%.

These bonds ($8,355,000) are secured by a closed, second mortgage covering 1,650 miles of road comprising the heart of the system, subject to a closed issue of $40,-500,000 First Mortgage bonds. Including these prior liens, the rate per mile is less than $30,000. They are followed by approximately $34,000,000 Refunding 5s, by $10,000,000 Adjustment Income 7s and by $88,000,000 capital stock.

The Improvement 5s thus seem to be profected by a very substantial margin of equity and they should receive fair treatment in any reorganization. Their present price probably discounts both receivership and reorganization.

There is little doubt that the Denver & Rio Grande can be made a successful property relieved of its Western Pacific obligations. Interest on the Refunding 5s, which follow the Improvement 5s, has been earned regularly, and for the year ended June 30, 1917, after payment of all fixed charges, there was a surplus of $1,228,000. For the five months ended November 30, 1917, the surplus over fixed charges amounted to nearly $600,000. The judgment which the Western Pacific bondholders have recently obtained against the company is junior to the Improvement 5s. These bonds sold in 1906 at 109, and at 90 last year.

Seaboard Air Line Ry. Co.

Adjustment Mortgage 5s, due 1949.

Present price—51, *yielding about* 10¼%.

Although these bonds are secured by a closed mortgage, interest is payable only if earned, but is cumulative. They were issued in 1909 and interest in full has always been paid. They sold as high as 84¼ in 1912.

For the six months ended June 30, 1917, the company reported a balance applicable to interest on these bonds of $1,285.140 or over double the amount required. Conditions in the South are favorable and the outlook for the after-war period is good. While comparatively recent financing has placed new fixed charges ahead of these bonds, nevertheless, this is regarded as highly advantageous in the long run in that it should increase the earnings and place the company in a position to finance itself on a long-time basis.

Distillers Securities Corporation.

Collateral Trust 5s, due 1927.

Present price—80, *yielding about* 8½%.

With the exception of a small issue of $1,100,000 bonds of one of the constituent companies, these bonds comprise the only bonded debt of the company and are a first lien on all its assets. A feature of these bonds is their steady absorption by the company and it is estimated that approximately one-half of the $16,000,000 bonds issued have been so purchased. The company has sufficient working capital to retire all the bonds outstanding. They are callable at 105.

The earnings of the company have been subject to wide fluctuations which have given these bonds a highly speculative character. During the past two years, however, the company has been very prosperous on account of war conditions which have peculiarly affected it and these bonds in consequence have come to be regarded as unusually attractive. Julius Kessler, the president of the company, it is reported, recently stated that the liquidation value of the company's $31,400,000 capital stock, after allowing for all bonds and other obligations, was in excess of its quoted value around 40.

Interborough-Metropolitan Co.

Collateral Trust 4½*s, due* 1956.

Present price—54½, *yielding about* 8½%.

These bonds are secured by nearly all the $35,000,000 stock of the Interborough Rapid Transit Co. at the rate of $200 in bonds for each $100 in stock. It thus takes 9 per cent. in dividends on this stock to equal the 4½ per cent. interest on these bonds. For the past few years, dividends paid on Interborough Rapid Transit stock have been 20 per cent. per annum, the amount earned on this stock for the year 1916-1917 having been about 26 per cent.

A sinking fund of $300,000 annually out of any surplus income is provided, to be used in acquiring these bonds in the open market at not above par. Bonds so purchased are held alive by the trustee and interest thereon added to the fund. It is estimated that this sinking fund should be sufficient to retire the entire issue at or before maturity. There are at present over $2,500,000 bonds held in the Sinking Fund.

Columbia Gas & Electric Co.

First Mortgage 5*s, due* 1927.

Present price—80, *yielding about* 8¼%.

These bonds are a first mortgage on all the property of the company, which controls the gas and electric business of Cincinnati and many other Ohio communities adjacent thereto. The company also owns and controls a large acreage of gas and oil rights in West Virginia and Kentucky, including a pipe line system. In addition to the growing gas and electric business of the company, a new source of earnings has been developed from the production of gasoline.

For the year 1917 the company reported a balance over all fixed charges amounting to nearly $3,000,000, against interest on these bonds of less than $700,000. The bonds are protected by a strong sinking fund which has already retired over 30 per cent. of the bonds originally issued, and which it is estimated will retire the entire issue at or before maturity.

The company is paying dividends of 4 per cent. on $50,000,000 capital stock.

New York Railways Co.

First Real Estate & Refunding Mortgage 4*s, due* 1942.

Present price—50, *yielding about* 9¼%.

These bonds ($18,000,000) are a mortgage subject to prior liens on all the property of the company. They are followed by $30,600,000 Adjustment Income 5 per cent. bonds and by $17,500,000 stock. The company has earned its charges each year since its organization in 1911, with the exception of 1917, when a deficit of $150,000 was reported, due principally to a strike. For 1916, the company reported a surplus over all charges of $1,440,000 and for the 5 months ended November 30, 1917, a surplus of $295,000. It is estimated that the asset value back of the Adjustment Income 5s which follow these First Real Estate 4s is equivalent to 65 per cent. of their par value.

The New York Railways Co. seems well supplied with working capital and has no obligations maturing in the near future. Municipal ownership, although not taken seriously, should favorably affect these 4 per cent. bonds. They sold at 79¾ in 1916.

SUGGESTIONS IN REGARD TO INQUIRIES

The very heavy volume of inquiries which this publication is now receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investors' Personal Service Department renders to our readers. We therefore suggest that:

(1) Not more than two or three inquiries be submitted at one time. Occasionally a subscriber sends in a long list of securities asking for an opinion on each. The careful manner in which the Investors' Personal Service Department handles its inquiries makes it impossible to give such inquiries the immediate attention necessary, without slighting other inquirers.

(2) Write all inquiries on a *separate* sheet of paper, which should bear the writer's name and address.

(3) Enclose stamp or stamped and addressed envelope.

The above suggestions are drawn up for the benefit and protection of our readers and those inquiries which conform with them will receive first attention.

When a reader wishes a special investigation or a special analysis of a security or a subject we shall be pleased to submit an estimate of the special charge for such work.

Government Bonds as a Peace Barometer

THE prices of the Government bonds of the belligerent nations should be the most reliable indication of peace. Prolongation of the war means a continuance of the tremendous drafts upon the capital of the nations involved, which will naturally result in forcing their bonds to lower levels. This is especially true of countries like France, which are already partly exhausted by the strain of war.

A genuine prospect of peace, on the other hand, would mean a cessation of these heavy expenditures and a gradual return of Government credit to a normal basis—in other words, rising prices for belligerent Government bonds.

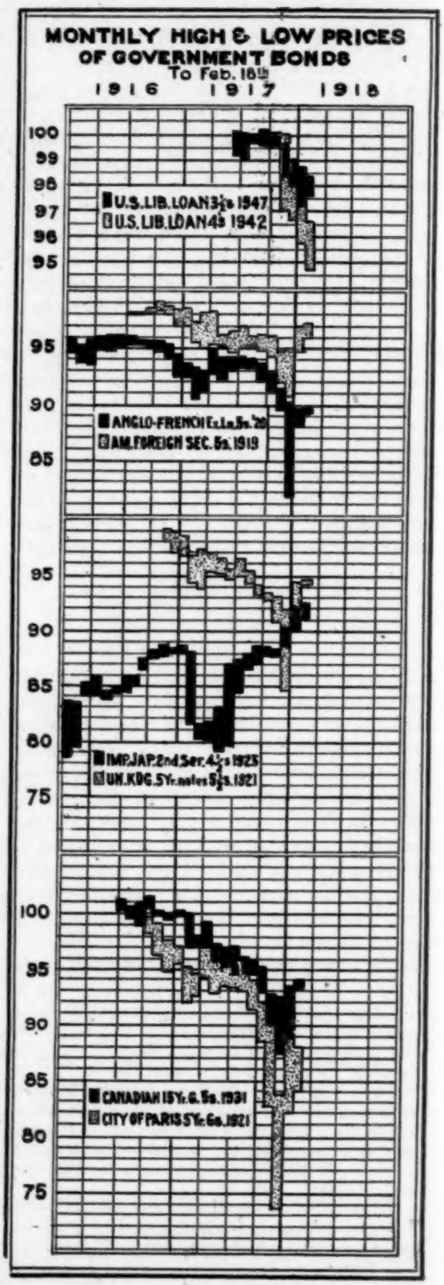
It is not practicable to combine the various Government bonds into an average, because of their differing characteristics. We are therefore presenting a graph, showing the prices of eight Government bonds in N. Y. monthly from January, 1916, to date.

A closed issue will of course behave differently from an open issue. Our own Liberty Loans are practically open issues, since more are to follow at an early date. The others are closed issues, since further bonds of the same kind are not now being offered here. That is undoubtedly the reason why the Liberty bonds have continued to decline while all others rallied sharply.

Of the various issues shown, the Anglo-French 5s might naturally be expected to be the best barometer of peace prospects. They represent the combined credit of France and Great Britain, but are not secured by any collateral. It is doubtful whether we can find any better measure of the peace outlook than the market's rating of combined French and English credit.

The sharp decline of all these bonds last December except the Japanese 4½s measured the effect of the Italian defeat and the collapse of Russia. The rally since then may likewise be said to gauge the chances of peace.

The erratic movements of the Japanese 4½s are difficult to explain. In view of the fact that Japan is far from the scene of actual conflict and has suffered but little, while at the same time filling profitable war orders, these bonds might perhaps be expected to move independently.



Stock Prices Now and in the Civil War

Similarity in Broad Movements of the Market

By WILLIAM T. CONNORS

THERE is a striking similarity between the broad swings of stocks during the Civil War and those of the present war down to date. Whether any such similarity will continue as peace draws near and after it is declared, it is, of course, impossible to say, but it is evident that the factors affecting prices will be to some extent the same.

I have taken considerable interest, therefore, in having prepared a graph showing the monthly high and low of an average of ten of the active standard stocks of that period. The stock market before the Civil War was a small affair, and it would be difficult to select more than ten stocks suitable for this purpose which were continuously quoted from 1860 to 1868.

The ten stocks used were as follows:

Cleveland, Columbus & Cincinnati.
Cleveland & Toledo.
Chicago, Burlington & Quincy.
Delaware & Hudson.
Erie.
Illinois Central.
Michigan Central.
New York Central.
Reading.
Rock Island.

All these were, of course, railroad stocks, but Delaware & Hudson was then more of a coal company than a railroad company—the greater part of its coal being handled over its canal. Early in the war there were no regular quotations on any industrial stocks. Later there were a few, but the railroads continued to show the general course of the market.

The great upward swing in the rails from 1861 to 1864 is fairly comparable to the bull market in our industrials from 1914 to the fall of 1916. The rise during the first nine months of 1860 and the decline of the next nine months were normal market fluctuations for the conditions which prevailed before the Civil War—it was the great war speculation which was abnormal. That was really the beginning of stock speculation in this country as we know it today.

Causes of Civil War Movements

It will be remembered that on November 6, 1860, the Governor of South Carolina told the legislature that if the result of the election showed that Lincoln was to be the next President, it would be necessary for the State to secede from the Union.

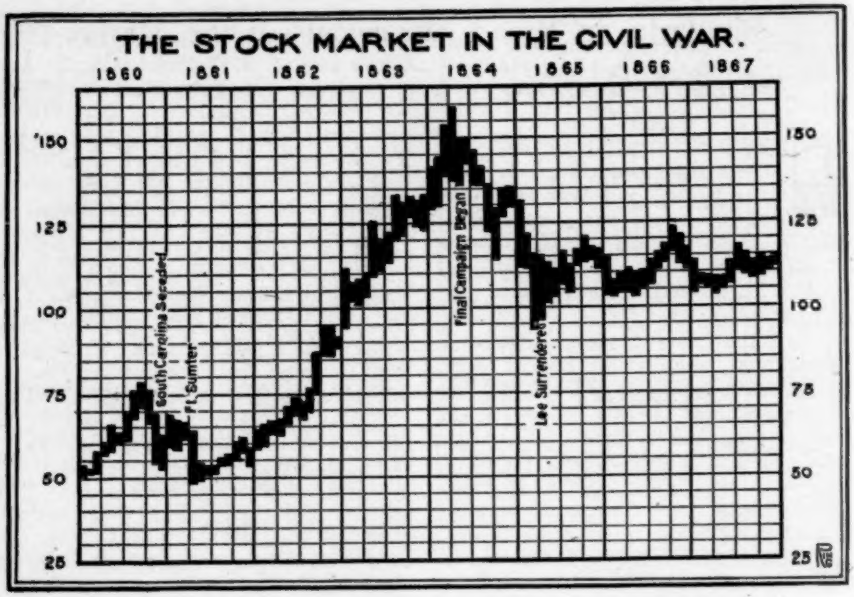
Stocks had already declined somewhat in October in anticipation of this probability, and they fell still more sharply during November as the result of the election became apparent. The actual secession of South Carolina and other States caused a slight further drop in December, and when Fort Sumter was fired on in April there was a break which, for that time, was called panicky, in which prices reached the lowest level of the war or several years following the war.

This break was followed by sixteen months of very dull markets, but during that time prices had slowly crawled up to the highest record of 1860, before the war began. The Government was borrowing and spending on a great scale. Its expenditures were filtering through the various channels of industry and business was everywhere good.

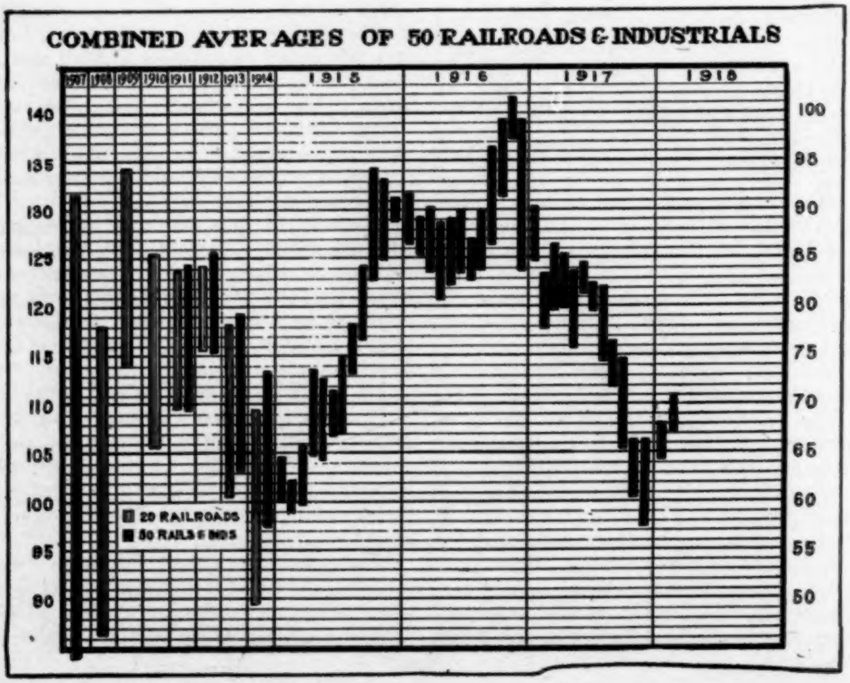
The very sharp advance of September, 1862, to new high levels coincided with the Emancipation Proclamation. Evidently the investors of the time believed that to be an important step toward victory. During the next three years the United States for the first time had a big speculative market.

Top prices were made in the spring of 1864, when Grant had just been given supreme command and was planning, with Sherman, the campaign which was to force the Confederacy to the wall in a year—the march through Georgia and the final operations against Richmond.

From the time that campaign was planned, and even before the first steps were taken, Wall Street began to discount peace. The bear market lasted just about a year



THE STOCK MARKET IN THE CIVIL WAR.



COMBINED AVERAGES OF 50 RAILROADS & INDUSTRIALS

—a curiously common period for the duration of a big decline.

The downward swing culminated the month before Lee surrendered and several years of smaller fluctuations followed, during which prices at no time were as low as they were when the war ended, but difficulty was experienced in maintaining any important advance. After 1869—to look a little beyond the period covered by the graph—prices began to soften, and the wind-up was the panic of 1873, eight years after the end of the war.

Comparison with the Present

Comparing with the graph of the fifty stock averages, it will at once be seen that there is a general similarity between the movements of stocks from September, 1860, to April, 1864, and those from January, 1914, to November, 1916.

Conditions were similar, and therefore results were similar. In each case there was temporary panic at the outbreak of war; a period of dullness and depression, but with prices slowly growing firmer; a gradual development of speculative enthusiasm based on big war expenditures; a final wild advance to very high figures, followed by a quick collapse.

The fall of prices in 1917 was considerably greater in proportion to the preceding advance than the decline of 1865 in comparison with the bull market of the Civil War. In that connection this point is to be borne in mind—that in the Civil War American railroads were just coming into their own. It is entirely probable that the prices of their stocks would have enjoyed a substantial advance even if there had been no war.

On the other hand, that can hardly be said of our leading industrials now, which have played the star part in our war markets. These stocks would have responded as usual to prosperity or depression, but no reason is apparent why their stocks should rise to a permanently higher plane under peace conditions. Hence it is natural enough that they should lose a greater part of their advance than the railroads lost in the last year of the Civil War.

In comparing the movements of the two periods, one is struck by the possibility that the stock market regarded our declaration of war against Germany last spring as a decisive factor toward ending the war, just as the market of 1864 felt confident from the start of the determinative character of Grant's final campaign.

If that point of view be admitted, there have been two reasons for the great decline of 1917: First, the very strong probability that events in general are working directly toward an early peace; and, second, the tremendous financial burden which this country is assuming in order to aid in what we all hope will prove the final campaign.

Probabilities

It would be foolish to attempt to follow out this historical parallel in any elaborate way, for there appear to be almost as many differences between the position of this country in 1864 and its position now as there are similarities.

It is not unreasonable to expect, however, that speculation will hereafter be held in check by the Government's heavy demands for capital until peace comes. Our expenditures cannot be stopped immediately even on the arrival of peace, but when the end of them is definitely assured it is likely that the market will to some extent discount relief from the pressure. Hence there may be some general similarity with the markets of 1865 when the war was ended by the surrender of Lee.

It is also natural to expect that peace bull markets which may follow the present war will be much more temperate than the war markets of 1915 and 1916. No such flood of sudden wealth was ever poured upon any country as that which the war brought us in those years. Even if the exhaustion of the world's capital were not considered as an element in the situation after the war, there could be no repetition of the Aladdin-like profits reaped by our corporations from Europe's war business.

But exhaustion of capital must be an element. The economic wounds left by the war must be slow to heal. The necessary supply of capital for a big bull speculation cannot be immediately accumulated under such conditions.

We may expect, therefore, that the stock market fluctuations which follow the end of the present war will be more moderate than those of the last two years, much as was

the case in the last half of 1865, 1866 and 1867.

Some may be inclined to advance the argument that our expenditures of treasure in the present war are so far beyond those of the Civil War, even in proportion to population, that no comparisons can be drawn. This point of view overlooks the tremendous gain in the efficiency of labor through increased use of machinery which has occurred since Civil War days. The very reason why our war expenditures are now so stupendous is that we are able, through our better organization of industry and our far greater application of machinery, to produce the necessary war materials, supplies and munitions, and therefore to wage stupendous war.

For that same reason it is probable that we shall recuperate faster after the war is over. Personally, I am rather inclined to expect a better speculative market, proportionally, than the markets of 1866 and 1867, unless the present war continues to a point of exhaustion of all nations concerned beyond what would now seem credible.

Accumulation of Wealth

The accumulation of wealth is now so much more rapid than that of half a century ago that restoration of normal conditions will naturally be quicker. That is one fact that I believe we may tie to in contemplating the paralyzing maze of uncertainty called "after the war."

At present the improving peace prospect is being used as a bull argument on speculative stocks, but the more probable cause of the advance is the natural rebound of the markets from prolonged depression.

A RECORD OF FAILURE

"The fact may be boldly stated at this point that in no country in the world where government ownership of railroads has been attempted has it been successful, with the single exception of Prussia, where, under the arbitrary mandates of a military autocracy some degree of efficiency and profit has been secured. Further, it may be stated that in no important instance has the experience of our own government in business operation been such as to warrant the conclusion that such activity would be profitably extended. Still further, it can be maintained that there is a sufficient majority of failures in public ownership of other public utilities in this country clearly to demonstrate its wastefulness and inefficiency under our present form of government and at our present stage of political progress.

"The privately owned railroads of the United States have the lowest freight rates, the lowest capitalization per mile, the greatest operating efficiency and pay the highest wages of any railroads in the world. They have been responsible for all the inventions and new ideas in equipment and operation which have developed the transportation industry to its present point. There is not a single instance on record of any new ideas in railroad equipment or operation coming out of government owned railroads. There is no incentive for creative thought in this field. Our privately owned railroads have rendered the largest measure of service at the lowest cost to the user. That they must turn to the government today for relief from intolerable conditions is due to no failure of their own, but that of the government, in its ramified activities, to permit adequate provisions for them. Restricted rates, wasteful federal and state regulations, increased wages, higher costs and inordinate traffic burdens have combined to force them into the hands of the government, although they can point with pride to a better record of service than the railroads of any other country.

"To illustrate this point more clearly, the average cost of moving a ton of freight one mile during the year prior to the war, for the countries named, was as follows:

	Cents.
United States (private ownership)	0.73
Canada (private ownership)	.75
Germany (government ownership)	1.24
France (government ownership)	1.30
Austria (government ownership)	1.50
New South Wales (government ownership)	1.59
Southern Australia (government ownership)	1.75
Switzerland (government ownership)	2.63

"The average capitalization per mile of road for the important railroad countries of the world is as follows:

United States	$64,000
Canada	68,000
Germany	120,000
Austria	122,000
Switzerland	129,000
France	148,000
Italy	158,000
Great Britain	275,000

"The same discrepancy in wages appears in comparison with other countries. The average wage of employes of all classes on the railroads of the United States, prior to the war, was over $800 a year, whereas the average wage in Germany was $409, and that on the government owned railways of Europe ranged from $300 to $377. American railways, furthermore, pay the highest prices for materials."

—*FRANCIS H. SISSON.*

RAILWAYS AND INDUSTRIALS

American Malting Analyzed

The Truth About Some Unfounded Reports—"Book Values" of Preferred and Common Stocks—Present Earnings and Prospects.

By BARNARD POWERS

IN discussing the American Malting Co. it is necessary to first put an end to two rumors which have obtained wide credence. The first is the report that the company is preparing to wind up its affairs and liquidate and the second is that the company has net assets available for the common greatly above its present market quotations.

The first report has been authoritatively denied. A high officer said to the writer that American Malting is going ahead with its business and has in contemplation no plan of dissolution. It was admitted that if nation-wide prohibition went into effect it would compel the company to cease operations, but there seems no immediate or remote likelihood of such a sweeping revolution in national affairs. That the company has no such assets for the common as rumored, will be shown in detail later in this article.

Why has the American Malting Company been such a disappointment since its incorporation in 1897? Why has it not been able, as many other industrials, to squeeze out the water in its stock and back its issues in the course of time with substantial assets? What is its present position and what does the future hold? These are the main questions which will be discussed here.

A Twenty-Year-Old Concern

The present company is now in the twenty-first year of its present corporate existence, having been incorporated in 1897 under the laws of New Jersey and representing the merger of some twenty-two malting companies. Two of these merged concerns were situated in New York City, nine in Chicago, three in Milwaukee and one in each of the following places. Le Roy, N. Y., Jordan, N. Y., Watertown, Wis., Buffalo, N. Y., Erie, Pa., Detroit, Mich., Hamilton, Ohio and Syracuse, N. Y. Originally the company had $15,000,000 preferred and $15,000,000 common stock. The American Malt Corporation, a holding company, formerly held in its treasury $8,559,000 preferred stock and $5,762,372 of the stock of the American Malting Co. In 1913 an effort was made to dispense with this dual organization by merging these two companies, but the New Jersey Board of Public Utilities Commissioners declined to authorize the consolidation and were upheld by the New Jersey Supreme Court. In 1915 by vote of the shareholders the stock issues were reduced from $30,000,000 to $15,000,000, the preferred being reduced from $15,000,000 to $9,000,000 and the common from $15,000,000 to $6,000,000. This brought the company's capitalization down to something like a workable basis, but it proved still too large for the volume of business and margins of profits. At that time Richard H. Landale, counsel for the company and a vice-president, pointed out that the two companies were jointly paying a tax on theoretical assets of $45,000,000, whereas the companies together had assets of only $10,000,000 as brought out in the proceedings in the New Jersey courts.

Exit Malt Corporation

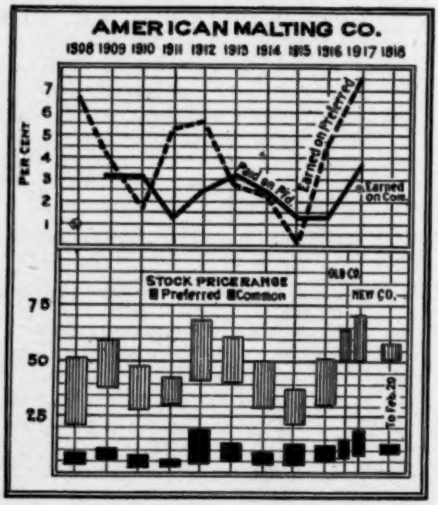
Further plans to place the company's affairs in ship-shape were carried out. The management went ahead with its plans to dispose of unproductive plants and use the proceeds to reduce the funded indebtedness. In line with this policy the plant at Avenue A and 64th Street, New York City, was sold to George Ehret for $600,000 and the Michigan property was also sold since that state had gone "dry." By the end of 1916 the funded indebtedness which at the end

of 1911 totaled $3,035,000, had been reduced to $1,500,000 and at the time of the last annual statement, August 31, 1917, the funded debt totaled only $900,000.

Late in 1916 the stockholders were asked to get rid of the Malt Corporation by exchanging stock share for share, and in February of the following year the plan was declared operative, 80% of the stockholders having assented.

Earnings

Looking over the statement of American Malting for the last decade one quickly arrives at the conclusion that the returns have never been proportionate to the capitalization. During all that time the company only once—in the fiscal year last



ended—earned its full preferred dividends and only once, in the same year, showed a small balance for the common stock. Of the ten years four showed profit and loss deficits. During that time the company earned 40.34% on its preferred stock or at an average of 4.3% per annum. The balance for the common in the one year mentioned, was equivalent to only 2.5%. As far as earnings go it appears that the American Malting has not shown much to warrant enthusiasm. In the 1916-17 year, when most industrials were showing tremendously large earnings, this concern was able to show its preferred dividend earned with a balance equal to less than 3 per cent on the common. In the ten-year period the company returned approximately 22 per cent to its preferred stockholders, or a little more than half the balances earned on the preferred.

The chief reason that Malting has not been able to make greater earnings is found in the gradual spread of the prohibition movement of the last few years. The company does not manufacture liquors itself, but sells its product—malt—to the brewing companies, and of course as the demand for their output decreases, the demand for Malting's products decreases. The cutting off of the competition of German-made beer was one of the chief reasons why earnings showed relatively well in the last fiscal year.

Difficulties Encountered

While the current year started off well enough, there were many obstacles to be overcome, in addition to the seasonal complaints of coal shortage, insufficient transportation facilities, etc. Among other things the Government has ordered the company to refrain from buying barley until purchase regulations are formulated, but probably by the time this is published that "bug" will have been passed.

The rumor that Malting was planning to liquidate doubtless arose from the fact that, owing to weather and labor conditions, it was necessary to close several plants and to withdraw temporarily from the sale of malt. Another factor bearing on the closing of the plants mentioned is the very speculative position of the barley market. According to an interest close to affairs, the present price of barley of about $1.80 a bushel is "absurdly high." Such prices make the selling of future deliveries of malt a very speculative affair.

It must be remembered that now there are about 1,500,000 young men actually under, or shortly to be under, draft restrictions, and that this means a very considerable curtailment in the demand for beers and similar beverages. Moreover, the price of beer has advanced very materially. The "growler" trade, which forms a very considerable percentage of the demand for beer, is hard hit by higher prices. Sellers now measure beer, and what the laborer got for ten or twelve cents with liberal

measurage, he now has to pay as high as fifteen to twenty cents for, and receives an exact quantity. All in all, the developments of the situation to date do not promise large earnings for the current year.

Accumulated Preferred Dividends

As the capitalization now stands there is an authorized issue of $8,700,000 6 per cent cumulative first preferred, of which $7,-136,800 is outstanding, and $105,000 7 per cent cumulative second preferred, all outstanding; $195,000 third preferred, of which $128,876 is outstanding and $6,-000,000 common, with $5,767,124 outstanding. The terms of issue of these classes of stock are interesting.

The first and second preferreds have preference as to dividends and, except as to rate, neither has any preference over the other as to dividends. In short, if a dividend is paid on one it must be paid on the other. The third preferred comes after the first and second, and with the common can receive no dividend until the full rate on the first two issues, together with accumulated dividends, has been paid. As on August 1 last the first preferred had 33 1/3 per cent of accumulated unpaid dividends, and the second preferred approximately 162 per cent of unpaid and accumulated dividends, it would appear that the outlook for dividends on the third preferred and common stocks is, to say the least, unpromising. The third preferred and common stock share alike in the matter of dividends.

Toward the end of last year, when it looked as though Malting was in for continued good times, there was considerable talk of the payment of the accumulated preferred dividends. Various methods for accomplishing this purpose were suggested and discussed, but nothing came of the talk. An officer of the company is the authority for the statement that 6 per cent on the preferred issue is all that the company can stand at the present time, and that there is now no plan under discussion or contemplation for the payment of the back preferred dividends.

Financial Position

Comparing the company's balance sheet as of August 31 last with seven years previous, one perceives some striking changes and a general improvement. As has been already noted the gross over-capitalization has been materially reduced, and all of the bonds, with the exception of $900,000, have been retired. Current assets of $4,884,000 consisted chiefly of receivables of $2,103,-000 and inventories of $2,030,000, with cash at the small total of $81,730. Excess of net quick assets over quick liabilities or working capital, totaled $4,597,000, which is sufficient for the company's requirements.

Stock Equities

The interesting thing about American Malting and the matter which has set busy the pencils of the financial statisticians, in connection with the dissolution rumor, is the equities behind the stocks. The company listed total assets of $18,496,000 in its last annual statement, of which approximately $4,885,000 were in the form of current assets and the remainder, or approximately $13,600,000, in the form of fixed assets listed under the vague heading "property, plants and good-will." Current assets may be accepted at their given valuation, and the whole matter therefore resolves itself pretty much into what liquidating valuation may be placed upon the "property, plants and good-will" item. Since the good-will of this concern is only an asset as long as it is a going company, that item would have to be disregarded as a factor in liquidation, so we come down to the question of what property and plants are worth. As to this we have two indicators, first the statement by Vice President Landale to the stockholders at the December, 1915, meeting that the combined assets of the present company and the former American Malt Corporation, as shown in the proceedings before the New Jersey courts, were only about $10,000,000; and, secondly, the fact that in the last ten years the company has charged only a little over $1,000,000 to maintenance, betterments and depreciation. If such charges were adequate it would surely indicate that a valuation of $10,000,000 is ample to allow for the properties. Since 1915 the company has added only about $430,000 to surplus, so it would appear that an allowance of $11,-000,000 for the value of its property assets is ample. Deducting the outstanding bonds and quick liabilities, together totaling $1,-187,000 in round figures, would leave a balance for the preferred of $9,813,000,

or approximately $111 per share. The balance for the common stock gives the latter a book value of something like $17 per share.

Conclusion

One is inevitably drawn to the conclusion that on a liquidating basis the first preferred stock has attractiveness, but as a going concern the preferred at 50-55 is not especially inviting. Although the issue is paying 6 per cent, the fact that in only one year out of the last ten has the company been able to show the full 7 per cent earned on the senior issue and that, during all that time, the average annual rate earned on the preferred was only 4.3 per cent, must render one skeptical as to the ability of the concern to continue to earn and pay even the present 6 per cent dividends. In the event of liquidation it would appear that the company could return at least par to the preferred stockholders, but the officers have specifically stated that the company is not going to liquidate.

As to the common it would appear that its present price of between $12 and $13 is all it is worth, if not more than it is worth. On a liquidating basis we figured a book value of $17 per share for the common, but that estimate took no account of the 33 1/3 per cent accumulated preferred dividends. Taking these back dividends into consideration would leave less than nothing for the common stock. The one chance for the common shareholders lies in the fact that it would require a two-thirds vote by the common stockholders to permit of a liquidation. The preferred shareholders would, therefore, have to make concessions to the junior shareholders to carry through a dissolution plan. Just what they would allow the common stockholders is anyone's guess, and our guess is that it would not be very much above the present market price of the stock. As a going concern the common has lean prospects. The fact that in ten years the total earned on this class of stock was but 2.58 per cent is perhaps sufficient indication of how remote common dividends are, not to mention that no dividends can be paid on this issue until the back dividends on the preferred have been liquidated.

"Careful Clifford" Says—

"The one strong feature in a bond does not necessarily redeem several poor ones. Look to the security that shows up well all around rather than to the one that shows one feature that predominates over other bonds of its own or other classes.

"Don't be too well satisfied with a statement of average condition over a period of years. Earnings may be very poor at the time, yet high figures five years back may bring the average up to a very fair figure. Rather study each year separately.

"Insist upon a recent income statement of any concern whose securities you are offered. Don't be satisfied with one nearly a year old. The house offering the securities usually has the late figures. The investor has a right to them.

"Don't buy heavily into the securities of a small railroad dependent upon some natural resource which is likely to be exhausted in a few years.

"If you hold a wide list of securities, send the list to your banker or Analytical Bureau once a year asking for suggestions as to which should be eliminated, which should be held and which might be exchanged for other securities to advantage.

"Do not always buy the full quantity of securities you desire the moment they are offered. Wait awhile for the balance of your requirements. You may get it cheaper. Instances are numerous over the last few months of bonds being purchasable considerably lower than prices at which they were first offered.

"Don't worry about your securities, if they are the obligations of a good company, when newspaper talk mentions the fact that earnings fell off somewhat over a short period, because there is generally what is known as a margin of safety for your bonds, and newspaper talk is likely to be written with especial reference to stockholder's interests."

Right and Wrong Methods of Investment and Speculation

By RICHARD D. WYCKOFF

Article VIII—Overtrading

A LIST of the causes of commercial failures, compiled by one of the big agencies, proves that more failures are due to lack of capital and overextension than to most of the other causes combined. This is also true in Wall Street.

People seem to have an exaggerated idea that they can start with a small amount of money and clean up a fortune on the stock market. They say: "With a thousand dollars margin I can buy a hundred shares of Steel and if it goes up two points I make two hundred dollars. That's twenty per cent on my capital."

No one whose capital is only $1,000 has any business trading in hundred share lots, for in doing so he is committing the greatest of Wall Street errors, which is overtrading.

Overtrading Is Financial Suicide.

It is true that if a person made $200 net on his first transaction, and then stopped trading forever, he would be making 20 per cent on the money employed, but he will not stop there. The chances favor his losing more on his next transaction than he made on his first. He doesn't know the business or he wouldn't begin that way. It is this vital mistake that leads so many people to lose their capital and become totally discouraged before they have learned the rules.

Overtrading may be committed in several ways. (1) One may buy on such a thin margin that the first reaction forces him to sell. (2) He may deal in too many stocks. (3) Even with plenty of capital he may deal in such large lots that he is worried and his judgment is warped. (4) He may trade too often. (5) He may deal in large lots in some stocks and small lots in others so that his losses and profits are irregular, as explained later. Many persons make some or all of these mistakes simultaneously.

The first is the most common failing. There is a tendency, when putting up margin, for the trader to deposit just as little as the broker will accept. It is just as if the venture were not his, but the broker's judging by the way he tries to get the latter to reduce his demands. Experience shows, however, that a liberal margin adds greatly to the trader's peace of mind and to this extent clarifies his judgment. It also saves some of his interest charges.

Perhaps this reluctance to deposit margin may be due to the fear that its owner is parting company with it for good. He has heard or perhaps has learned that a great deal of money has disappeared in that direction, hence he argues with his broker. But the broker is right in demanding adequate margin for mutual protection.

A broker is merely an agent for the client, and furnishes the money necessary to make up the difference between the cost of the stock and the margin deposited. He knows that overtrading is one of the predominating causes of loss and failure, and does his best to impress it on the client. Calling for margin is the most distasteful of all the broker's tasks, because it reminds the client of his losses, and often this call is the reason why the trade is closed, the loss suffered, and the account lost to the broker.

To Avoid Margin Calls, Don't Overtrade.

Some people operate in stocks on the same plan as those who make collections of bugs and beetles: They aim to secure as many varieties as possible. Distribution of risk is a very good investment principle, but is not desirable for those who aim to derive profit from fluctuations. The best results are obtained by dealing in few stocks at a time, because it is less confusing, and one can give closer study to two or three than to a couple of dozen. He can also act more quickly in an emergency. It is even better to concentrate on one stock than to take risks with a miscellaneous assortment.

Considering the amount of his available capital one man may overtrade if he deals in one hundred shares, while another may not be doing so even though he swings ten

thousand shares; but measured by his mental capacity the larger operator may be far more nervous than the small trader. It is a question of finding your individual limitations and adjusting yourself to them. Last winter, at Palm Beach, I met a big trader who had recently covered 50,000 shares of Steel at 20 points profit ($1,000,000) without the quiver of an eyelash. Yet I saw him tremble with excitement over a game that didn't mean over $2,000 or $3,000 to him either way.

The Income Point of View

Small traders are apt to over-reach because of their desire to make a lot of money in a short time. It is an old Wall Street saying, "Those who come here expecting to win a fortune usually go broke, but those who try to make good interest on their money often get rich." Or, to make a jingle of it:

Let the plunger have his fling,
A steady income is the thing.

When I was in the brokerage business I had a client who was very successful because he adhered strictly to this "good interest" method. He would buy outright a stock like Utah Copper when it was selling at 40 and paying dividends of $3 a share, this rate giving him a liberal return on his capital. When he had five or six points profit he would take it and put the money back into the bank until another slump gave him a new buying opportunity. He reasoned that a five point profit was 12½ per cent and the dividend return brought the profit up to around 20 per cent which was a liberal profit for the short time the money was invested. And as he was not trying to make a lot of money all at once but to make certain of a good return on the capital employed, he closed out. He stuck to dividend payers, never bought in a rally, was cautious and conservative and thus managed to earn 20 per cent to 30 per cent per annum while others were losing their money. Of course every one is not adapted to this style of buying for interest and profit, but it would be better for many people if they followed it instead of the haphazard ways now generally employed.

The man who knows how can take a few thousand dollars and by certain pyramiding methods and clever use of stops, make his profits multiply rapidly under certain market conditions, and yet avoid over-trading. It all depends upon knowledge, experience, the plan, and its execution.

The beginner, as well as the more experienced trader, would do well to deal in a uniform quantity in every trade so that his profits and losses will bear the proper relation to each other. The tendency is to plunge on one stock to the extent of 500 shares but only take on 100 or 200 shares of another. If the larger quantity shows a loss of five points it amounts to $2,500, while a profit of the same number of points on the smaller quantity would only be $500 or $1,000.

The best explanation of the necessity of trading in uniform lots is given in "The Business of Trading in Stocks"* in a chapter on "The Unit of Trading." The author shows how, in deciding the best number of shares for a continuous series of transactions, he went over his tabulated results for the past, and found that 20 points would have covered the worst run of consecutive losses he had experienced. He therefore decided that he would deal in 10 shares for every $300 of available cash margin, as this would give him 10 points margin in addition to the 20 points as a reserve to cover another such series of losses. This is a scientific way of deciding on such an important point. As the author of the book proves, it is not the dollars made on any one transaction that count, but the number of *points* realized in excess of *points* lost. His argument confirms that in "Studies in Tape Reading," which shows how success is indicated when an active trader can make an average of one-eighth of a point per day more than he loses, and keep it up. After that he has merely to increase the number of shares in which he trades in order to make money faster.

The person who buys and sells less frequently has the same problem. If he trades but ten times a year it should be in uniform amounts, otherwise he might have heavy losses on his larger amounts, and thus be forced to reduce commitments on his future trades.

"Action" Is Generally Costly

There is another type, known as a quick trader, whose specialty is "jumping in and

*Published by Magazine of Wall Street, postpaid $2.08.

out" several times a day. A wealthy friend of mine was one of the worst cases. He used to trade in from one per cent to two per cent of the total number of shares dealt in on the New York Stock Exchange daily. He had a couple of million dollars that he was "having some fun with," and said he would rather shoot at a rathole than sit around a week or two and wait for a woodchuck. He wanted action. He got it.

Look over your past transactions and see how often you have made one or more of these overtrading mistakes. You have a record in your note book, or on your brokers' statements. Tabulate them and see how often you have taken big losses on large lots and small profits on small lots—how irregular your trading was in quantity, principle and method.

It is a business proposition, this dealing in stocks. There are hundreds of errors you can make but success is to be attained only by first eliminating the big mistakes and then the small ones. You must get rid of any preconceived notions and study the principles of the business as set down by the few people who have been willing to write them for the benefit of others.

One of the first of these was Dickson G. Watts who gave as a fundamental law, "*Never overtrade. To take an interest larger than the capital justifies is to invite disaster.* With such an interest, a fluctuation in the market unnerves the operator, and his judgment becomes worthless. *Act so as to keep the mind clear, its judgment trustworthy.*"

IN THE NEXT ARTICLE MR. WYCKOFF WILL DISCUSS STOP ORDERS AND THE LIMITATION OF LOSSES.

Previous articles of this series were published in the issues of the dates given below:

Nov. 24th: The Business of Investing and Trading Is Not Easy.
Dec. 8th: When to Buy and Sell.
Dec. 22d: The Fallacy of Being Always Bullish.
Jan. 5th: Buying in Panics.
Jan. 19th: Buying Outright No Protection Against Loss.
Feb. 2d: Securities Not Always Cheap Because Their Price Is Low.
Feb. 16th: Buying on Bulges.

A NEW NATIONAL DEVELOPMENT IN SELLING SECURITIES

A new plan for the national distribution of securities by co-operative action of banks and dealers in bonds has been developed by the Equitable Trust Company of New York with a view to utilizing more fully the enormous investment purchasing power of the country. The Equitable co-operative plan is directed, in a measure, also toward meeting those financial conditions affecting the distribution of securities that have accentuated the necessity for introducing economies and increasing the opportunities of local dealers to meet competition.

The plan provides a service by the bond department of the Equitable Trust Company to the participating banks and dealers, which includes the following features:

1. A campaign of national advertising, to be planned with the purpose of achieving the maximum benefit from the campaign for each member of the group.

2. Local advertising campaigns, to be prepared for the participants for the intensive cultivation of their local fields.

3. An equal division of profits between the Equitable Trust Company and the participants.

4. The furnishing of selected lists of carefully investigated and well diversified bonds, short-term notes and acceptances, weekly to participants. The lists are constantly revised as to price fluctuations, withdrawals and new acquisitions; information is constantly kept up to date concerning the securities listed.

5. Information service regarding securities not on the lists, to meet the requirements of members who may wish to purchase or sell certain securities in the New York market.

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before the earnings' columns indicates a deficit for the year in dollars per share.

INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.

Companies Which Have Reported for 1917.

	Dollars Earned Per Share.						Present Div. Rate	Recent Price	Yield on Price	
	1912	1913	1914	1915	1916	1917				
Amer. Agri. Chem. com........	7.34	5.23	7.68	10.97	20.57	21.11	6	85½	7.01	Outlook encouraging, a semi-peace stock.
Amer. Beet Sugar com.........	8.46	3.87	1.01	7.50	14.30	30.55	8	79½	10.06	Government price insures reasonable profit.
Amer. Car & Foundry com.....	2.46	4.09	5.52	0.76	2.38	27.37	4	75½	5.29	Large Gov't contracts for box and tank cars. **Extra div.**
Amer. Cotton Oil com.........	6.49	3.38	1.99	7.05	6.99	4.55	4	33	12.12	High prices for cotton seed detrimental.
Amer. Hide & L pfd...........	3.22	3.66	0.83	7.38	12.64	13.82	5	60	8.33	Latest earnings favorable.
Amer. Linseed pfd............	—2.85	2.96	1.83	6.02	8.82	12.82	7	75	9.33	Earnings believed to be very large.
Amer. Loco. com.............	0.47	17.74	1.30	13.00	36.08	21.80	5	66½	7.51	Prospective heavy European orders after war.
Burns Bros. com..............	.....	4.41	8.40	12.11	10.03	21.27	6	117	5.12	Business continues very profitable.
Col. Fuel & Iron com.........	4.79	4.58	—3.11	—1.44	5.97	11.15	3	40⅝	7.40	
Crucible Steel com............	6.81	12.84	—2.94	5.39	45.89	42.12	0	65½	0.00	Profits tax harmful. Record earnings.
Inter Agri. Corp., pfd.........	11.22	—1.24	0.65	—0.47	9.80	9.31	0	47½	0.00	Earnings excellent.
Inter. Nickel com.............	23.54	16.66	11.20	13.32	27.34	31.13	4	28	14.28	Canadian and U. S. taxation hurtful.
Maxwell Motor com............	.....	.....	0.30	6.55	30.18	30.72	0	30½	0.00	War economies hurt. Business good.
Nat. Biscuit com..............	10.00	9.61	11.75	9.52	8.19	9.72	7	99	7.07	Peace should prove advantageous.
Pullman Co.	8.69	9.29	9.04	8.79	10.32	11.36	8	117	6.83	Increased expenses reduce margin over dividend.
United Fruit	16.39	14.53	6.19	16.12	27.97	26.72	8	131	6.10	Government regulating freight rates.
Va.-Carolina Chem. com.......	3.28	0.53	3.39	7.55	10.39	10.92	3	41½	7.22	A semi-peace stock.
Westinghouse Elec. com......	3.08	4.10	5.36	2.31	10.21	12.56	3½	42	8.33	Recent new financing.

Companies Which Have Not Reported for 1917.

	1912	1913	1914	1915	1916	1917	Present Div. Rate	Recent Price	Yield on Price	
Allis Chalmers pfd...........	.....	4.77	—0.15	6.80	19.97	.....	7	81	8.64	Plant at capacity. Record business.
Amer. Can pfd................	9.66	10.61	7.07	12.19	19.31	.....	7	94	7.44	Government business helps.
Amer. Smelt. & Ref. com......	11.47	7.47	6.51	16.80	31.73	.....	6	84¼	7.12	Large cash reserves. Mexican situation hopeful.
Amer. Steel Foundries........	4.53	6.01	—1.35	—1.20	19.89	.....	7	66	10.62	Dividend increase warranted by earnings.
Amer. Sugar Ref. com.........	5.23	—0.25	2.90	4.99	18.46	.....	7	108	6.48	Government price restrictions.
Amer. Tobacco com...........	30.42	28.12	21.04	20.05	22.73	.....	20	166½	12.01	Margin over dividend now large.
Amer. Woolen com............	2.01	—9.89	—0.06	6.40	15.32	.....	5	56	8.92	War orders record breaking.
Amer. Zinc com...............	8.10	—4.65	1.53	54.92	139.52	.....	0	16	0.00	Earnings affected by decline in spelter.
Anaconda Copper	3.65	2.61	1.88	7.16	24.85	.....	8	65	12.30	Expected to continue dividend despite taxes.

Baldwin Loco. com...........	11.49	13.09	—5.25	7.14	22.91	.....	0	79	0.00	Large earnings. Dividend expected.
Barrett Co. com...............	11.11	15.61	10.31	21.19	32.84	.....	7	92	7.60	Strongly intrenched against foreign competition.
Bethlehem Steel com.........	6.90	27.50	32.60	112.50	286.30	.....	10	82	12.19	Earnings good, taxes large.
Butte & Superior..............	.....	3.47	5.21	33.47	31.79	.....	0	20½	0.00	Earnings slightly improved. Litigation harmful.
Cal. Petroleum, pfd..........	4.25	11.74	11.54	7.80	8.44	.....	4	46¾	8.55	Position not encouraging.
Central Leather com..........	8.58	5.18	6.41	10.82	33.14	.....	5	70½	7.09	Gov't business. Heavy excess tax.
Chino Copper	2.80	3.51	3.44	7.67	14.40	.....	8	44½	17.97	Dividend reduction expected.
Continental Can com...........	.....	4.88	10.69	12.05	22.38	.....	5	94⅞	5.27	Government business.
Corn Prod. Ref., pf..........	6.88	7.66	7.73	10.62	20.39	.....	7	95	7.36	Earnings estimated at rate of $25.
Cuba Cane Sugar com........	.....	.....	.....	.....	17.36	.....	0	33	0.00	Earnings disappointing.
Distillers' Securities	1.62	1.17	2.28	4.64	10.30	.....	2	40⅜	4.95	Position strong. Buying its bonds.
General Chem. com...........	21.72	19.19	18.73	44.27	86.76	.....	8	180	4.44	War earnings.
General Electric	16.19	12.88	11.12	11.57	18.31	.....	8	142¼	5.62	Burdensome inventories.
Goodrich (B. F.) com........	3.34	0.83	5.62	17.17	12.76	.....	4	47	8.72	Operating costs heavy. Record business.
Greene Cananea Cop.........	4.31	2.33	1.97	1.04	7.03	.....	8	42	19.04	Tax burdened. Mexican situation better.
Great Northern Ore...........	1.75	0.71	0.54	0.70	1.39	.....	0	29	0.00	No regular dividend rate.
Gulf States Steel com.........	.....	.....	.....	10.17	30.25	.....	10	95	10.52	Will suffer from tax and price fixing.
Inter. Har. N. J. com.........	16.18	15.54	14.41	17.94	27.25	.....	5	130	3.84	A peace stock.
Inter. Mer. Mar. pfd.........	0.25	4.44	—0.58	26.26	42.10	.....	6	99¼	6.04	Early funding back dividend still doubtful.
Inter. Paper pfd.............	5.35	4.44	5.08	5.44	22.85	.....	6	62	9.67	Earnings disappointing.
Mex. Petroleum com....	5.88	11.62	4.68	5.12	15.83	.....	8	93½	8.55	Further development awaits quiet in Mexico.
Miami Copper	2.81	1.75	1.65	4.56	10.39	.....	6	32	18.75	Excess profits tax.
National E. & S. com.........	—1.54	1.05	—0.32	2.02	11.67	.....	4	47⅞	8.37	Dividend increase was justified
National Lead com............	3.81	3.64	3.73	4.86	6.16	.....	4	55	7.45	Lower lead prices should benefit.
Nevada Cons. Cop............	2.18	1.45	0.74	2.78	7.51	.....	4	19½	20.51	Dividends endangered by profits tax.
New York Air Brake..........	5.72	6.55	6.41	13.43	82.15	.....	10	135	7.40	Earnings large. Extra dividends.
Pittsburgh Coal pfd..........	7.48	10.07	5.06	6.11	11.64	.....	6	83½	7.18	Coal price regulation.
Pressed Steel Car com........	0.76	10.56	0.14	3.60	15.00	.....	7	64⅝	10.83	High costs diminishing profits.
Railway Steel Sprg. com... ...	5.77	1.31	—0.42	3.09	20.49	.....	5	54½	9.17	Repair business heavy. Earnings large.
Ray Cons. Copper.............	1.33	1.85	1.65	3.08	7.65	.....	4	24½	16.32	Profits tax may endanger dividend.
Sears, Roebuck com...........	19.34	21.17	21.30	17.57	26.55	.....	8	154½	5.17	Record gross, but profit reduced.
Sloss-Sheffield com.	0.84	2.09	0.21	0.53	14.44	.....	0	52½	0.00	New management forcing retrenchment.
Studebaker Corp. com.........	4.95	3.12	12.79	27.46	26.14	.....	4	53	7.54	Large floating debt. Competition hurtful.
Tobacco Products com.........	.....	0.30	1.03	2.31	5.44	.....	6	55½	10.81	Maintains heavy business.
United Cigar Stores com......	5.75	6.83	7.09	7.69	9.48	.....	8	96½	8.29	Record breaking business.
U. S. Cast Iron Pipe pfd.....	5.70	4.52	—4.78	0.60	10.91	.....	5	45	11.11	High prices curtail demand for pipe.
U. S. Ind. Alcohol com.......	5.01	1.94	1.94	12.60	36.14	.....	16	121	13.22	Earnings continue large.
U. S. Rubber com............	6.00	13.21	9.18	10.80	17.75	.....	0	58½	0.00	High costs and competition.
U. S. Smelt. & Ref. com......	14.42	10.08	3.21	27.85	40.99	.....	5	48½	10.30	Benefits from high prices. Record output.
U. S. Steel com..............	5.71	11.02	.....	9.96	48.46	.....	5	96⅜	5.16	Taxation and cash burdens enormous.
Utah Copper	5.35	5.38	5.34	11.03	24.46	.....	14	84½	16.56	Tax will leave slim margin over dividends.
Willys-Overland com.	.....	18.52	24.41	45.47	22.99	.....	1	19¾	5.19	Dividend 4%. Peace or war benefits.
Woolworth (F. W.) com......	8.73	10.82	10.86	13.19	15.57	.....	8	118	6.77	Business large; splendid earnings. Peace stock.

Distillers Securities—Industrial Alcohol

War Has Brought Prosperity to Both Companies—Prospects Uncertain When Peace Comes—How Earnings Have Built Up Assets—Liquidating Value of Distillers

By FREDERICK LEWIS

BOTH Distillers Securities and United States Industrial Alcohol have reached their present state of great prosperity as a direct result of the war. Before the great conflict started both corporations had shown but an indifferent earning power. Industrial Alcohol, for example, in no fiscal year of the pre-war period had earned sufficient to justify the payment of common dividends, although a small surplus over preferred dividends was earned each year.

Distillers Securities up to 1914 had been showing a steadily decreasing tendency in earnings, due to the increase of the prohibition movement. With war all this was changed. The enormous demand for industrial alcohol, needed for the manufacture of explosives, resulted in capacity orders for this product for both Distillers and Industrial Alcohol. There will be no let up in this demand until peace comes, then, however, it will in all likelihood shrink to very small proportions unless a greater commercial demand is developed.

Industrial Alcohol

Horatio S. Rubens, chairman of the board of Directors, recently stated that it seems reasonable to expect that under after-the-war conditions, earnings of Industrial Alcohol will be sufficient to maintain the present dividend on the common stock of 16 per cent, owing to the entry of the company and its various subsidiaries into additional fields of production, which promise to be profitable under peace conditions. In this connection there are good grounds for believing that a practical method for the use of alcohol for fuel can be perfected. This matter is still in the experimental stage, but people familiar with the affairs of the company believe that there are great possibilities in it. Should this expectation be realized it might well mean a very brilliant future for the company.

In 1915 the company earned $12.60 a share on the common stock, in 1916, $36.14 was earned, and in 1917, after liberal allowance for depreciation and all taxes, reliable estimates are to the effect that between $70 and $80 a share was earned. Taking the lowest estimate of 1917's earnings and for the three years 1914, 1915 and 1916, a total of $119 a share was earned on the common stock. Of this amount $36 a share has been paid to date in dividends, leaving $83 a share put back into the property.

TABLE I—DISTILLERS SECURITIES—INDUSTRIAL ALCOHOL

Range of Stocks

	Distillers Securities		Industrial Alcohol	
	High	Low	High	Low
1911 ..	38¼	29	30	24
1912 ..	36¼	20	57¼	26
1913 ..	21¾	9¾	44	25
1914 ..	20½	11	20	15
1915 ..	50½	5½	131¾	15
1916 ..	51⅝	24	170½	94½
1917 ..	44¼	11¾	171½	98⅛

The demand for alcohol is now greater than ever and with a greater capacity Industrial Alcohol has excellent prospects of surpassing in 1918 its remarkable showing of last year. It should at the very least do as well. In the four years 1914-1918, therefore, it is decidedly likely that the company will have earned close to $200 a share on the common.

In the five years preceding the war, earnings averaged 3 per cent on the common stock. In the meantime the company's assets have more than doubled, increasing the output and making for greater efficiency. Therefore, even should the ratio of earnings to invested capital be no greater after the war than it was in the pre-war period the company's earning power would be from $7 to $8 a share on the common. As has already been noted, the management takes a much more optimistic view than this.

Capitalization

The Graph gives the capitalization of Industrial Alcohol. Total capitalization, it will be noted, is $20,951,600, which appears small when compared with the big volume of business the concern is now handling and its extensive plant system. Its principal plants are located in Brooklyn, N. Y., New Orleans, La., Buffalo and Binghamton, N. Y., Curtis Bay, Md., and Peoria, Ill. That enlargements and improvements made to the plants since the war have been very extensive can be seen by a glance at the company's balance sheet. As of December 31, 1916, property account stood at $34,363,210, as compared with $21,276,688 as of December 31, 1915, and $16,845,671 as of December 31, 1914. This is an increase of over 100 per cent in two years.

TABLE II—DISTILLERS SECURITIES—INDUSTRIAL ALCOHOL

Dividend Record

Distillers Securities

1903-5	1906	1907	1908-12	1913-15	1916	1917
4%	4¼%	5¾%	2%	None	3%	2%

Feb. 13, 1918, declared quarterly dividend of ½% and an extra dividend of 1½%.

Industrial Alcohol

	1907-1916	1917
Pfd. Stock	7%	7%
Common Stock	None	32%

Regular quarterly dividends of 1¾% on preferred and 4% on common declared for first quarter of 1918.

The remarkable part of it is that these extensive additions and improvements have all been paid for out of earnings. The company's program of plant expansion was largely completed in 1916, so that earnings in 1917 were principally used to pay dividends and improve the financial condition of the company. Current liabilities December 31, 1916, stood at $7,878,921 and during 1917 this floating debt was practically all liquidated. That the company was able to accomplish this and at the same time pay out $3,800,000 in common dividends, is truly a remarkable performance.

Now that its plant expansion has been completed and its financial structure made sound the company is in a position, should it desire to do so, of paying out a much larger percentage of earnings in dividends. It is quite possible, however, that instead of doing this by increasing the present rate, a large stock dividend will be declared and the present rate of 16 per cent be maintained on the increased issue. In view of the big increase in the assets of the company, an increase in capitalization would appear to be entirely justifiable.

Distillers Securities

While Distillers Securities has benefited to a considerable extent from the manufacture of industrial alcohol, its largest profits are coming from the sale of its big stocks of whiskey, for which it is now getting fancy prices. The law prohibiting the manufacture of distilled spirits during the period of the war has meant huge profits.

Before the war this company was in poor financial shape and dividends on the stock were stopped in 1913. In June, 1915, it sold its holdings of 63,500 shares of common stock of the United States Industrial Alcohol Co. for approximately $2,500,000, thus clearing up the larger part of its floating debt. Earnings the past few years have further strengthened its financial condition, so that, as of December 31, 1916, its working capital stood at $12,038,517 and its bonded debt at $8,969,383, as compared with a bonded debt of $16,000,000 before the war.

TABLE III—DISTILLERS SECURITIES—INDUSTRIAL ALCOHOL

Earnings on Common

	Distillers Securities	Industrial Alcohol
1910	* 2.40%	2.03%
1911	* 2.95	4.02
1912	* 1.62	5.01
1913	* 1.17	1.94
1914	* 2.28	1.94
1915	* 4.64	12.60
1916	*10.30	36.14
1916	†4.10	
1917	14.80	‡70.00

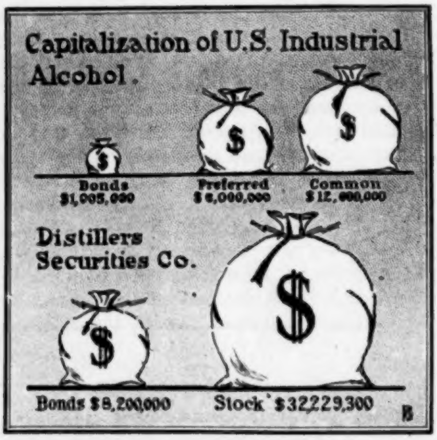
†Six months ended Dec. 31, 1916.
*Years ended June 30.
‡Estimated.

1917 Banner Year

Earnings for the year 1917 were the greatest in the history of the company, $14.80 a share being shown on the stock.

The previous report of the company covered the six months ended December 31, 1916, in which period $4.10 a share was earned. In 1917 the company purchased and cancelled $5,000,000 of its 5 per cent bonds, the purchase price averaging $720 per $1,000 bond. This discount represented a saving of $1,400,000.

In the remarks to stockholders in the 1917 report the following statement is made: "In the opinion of the Board, the earnings of the company for the ensuing year will be fully equal to those of 1917."



This is probably a very conservative statement as indications are that 1918 will be considerably better than 1917. In the first place the company's production of industrial alcohol should be greater and in the second place profits from the sale of whiskey should run far ahead, as the present high prices now being received were in effect only for a portion of the 1917 year.

Liquidating Value

The future of Distillers Securities is of course a very uncertain one in view of the prohibition movement. The tendency has been recently to regard it in the light of a liquidating proposition. The working capital as already stated is $12,038,517. In arriving at this figure the company's supplies are figured at cost, $6,239,629. In view of the high prices that are now being paid for whiskey this is a very low figure. Outstanding bonds December 31, 1917, totaled $8,969,383, so that the working capital as given is sufficient to retire these bonds at par and still leave approximately $3,000,000 available for the stock. In addition there is, of course, behind the stock, assets represented by more than 100 plants, including distilleries, distributing houses, bonded and free warehouses, etc.

At present prices of around 38 the stock has a market value of about $12,000,000. It is estimated that the company, even if it should sell its plants at a most drastic sacrifice, could show a liquidating value for the stock far in excess of its present market price.

Since the first of the year the company has retired an additional $891,000 of its first mortgage bonds, reducing the amount outstanding to $7,078,383. It is believed that the Distillers will continue to pursue the policy of picking up its bonds on every favorable opportunity.

Position of Stocks

Both Industrial Alcohol and Distillers Securities stocks should be regarded as of the decidedly speculative variety, but as speculations they have good possibilities. Industrial Alcohol has increased its yearly profits more than tenfold since the war started and has put millions into improvements from earnings. The company has very nearly earned the present market price of the stock, 121, in the past three years and prospects are that 1918 will be its biggest year. Should the company be able to do as well after the war as its officials predict, the stock is decidedly on the bargain counter. Even if the period after the war is a very poor one the company will probably have gathered in enough profits by that time to justify the present price of the stock.

Distillers Securities' assets are apparently worth more than the stock is now selling for and if the company is liquidated stockholders should fare very well. There is this point to consider, however, the company may not be liquidated and run into a period of very poor business, which might have the effect of dissipating some of its assets. For a long pull an industrial stock such as American Can which has prospects of doing an excellent business after the war would appear more attractive. American Can's position was analyzed in an article which appeared in the February 16 edition of The Magazine of Wall Street.

BUSINESS AND FINANCE SERIES

No. VIII. Part 2

Position of Coal Stocks

Consolidation Coal and Pittsburgh Coal—Important Factors Affecting Their Status—Earnings and Investment Positions

By JAMES SPEED

IN the very able article by Mr. Floyd Parsons, Editor of *Coal Age*, which bore the title of "Why Coal Is King" and which appeared in our last issue, the following phrase stands out:

"Coal will never again sell at the low prices that prevailed before the war."

In interpreting this one concludes, of course, that the author did not mean that the price of coal would literally never touch the pre-war levels, but rather that over a period of time prices would range higher than before the war. In other words, that the day of cheap coal has gone by, not to return.

Mr. Parsons gave six reasons for his sweeping statement, to wit: (1) Legislation compelling higher extraction, (2) Permanently higher wages, (3) More perfect preparation and grading of the product, (4) Greater safety precautions and workmen's compensation, (5) The development of less favorable seams, and (6) Probable increase in prices of all essentials entering into mining work.

How will the higher price levels for coal affect the coal producing companies? Offhand it would appear that it would mean greater profit, but when one stops to consider that such higher prices, if they materialize, will be merely the results of higher COSTS, the argument loses its bullish aspect.

Coal has been in the public eye this winter as never before, with perhaps the exception of the period of the great strike in the anthracite regions during Roosevelt's administration. The great coal scarcity may be laid primarily to three reasons: (1) Bad weather conditions, (2) Shortage of transportation facilities, and (3) Insufficient labor. The picture which accompanies this article will give the perplexed city-dweller some insight as to why the "fuelless Mondays" were a necessity.

In the middle of last summer this publication took up the coal situation and the position of the leading coal stocks. It was then pointed out that the transportation problem was a serious one, and until that was settled it would not pay to become too enthusiastic over the outlook for this class of securities. It was furthermore pointed out that while the coal producing companies were making handsome profits, it was not likely that their securities would run counter to the strong downward trend of the market then developing. This proved to be excellent advice, for if the reader will turn to page 756 of our last issue he will see, by the 50 stocks average graph, that in July of 1917 the market had registered only about one-half of the big 1917 decline. The coal stocks were not nearly as adversely affected as the rails and industrials, but at the present writing can be bought many points cheaper than then.

Consolidation Coal

When the writer considered this company in the July 21, 1917, issue of THE MAGAZINE OF WALL STREET the common stock was then selling at about 104. In sympathy with the rest of the market this issue sold steadily downward during the remainder of the year until it made a low in December of 88½. At this writing the issue has recovered to a price of around 103.

Comparatively speaking, Consolidation Coal is a quiet corporation and a quieter stock. It is listed on the Baltimore and the New York Stock exchanges, and while a few shares change hands daily on the

former board, it appears only at rare intervals on the ticker in New York. In the last eight years the low of the stock was 74½, made in 1909, and the high 118½, in 1916.

Capitalized at $45,000,000, one class of stock, par $100, it has $35,121,304 outstanding. The unissued stock is held against the secured convertible bonds of 1923. These convertible bonds totaling $6,477,500, are convertible into the company's capital stock, at 105 per share, at any time prior to Feb. 1, 1922, so that the convertible privilege has four more years to run. Other issues by the company itself or its subsidiaries, bring the total of the funded indebtedness up to $28,236,500. It will be seen by Table I that Consolidation has earned the interest on its bonds for the last eight years between three and four times per annum on the average, which entitles its bonds to a secure investment rating.

TABLE I—CONSOLIDATED COAL'S EARNINGS (Years Ended December 31)

	Gross revenues	Operating income	Fixed Charges	Net Income	Earned on stock	Divs. Paid	Year's surplus
1909	$10,500,902	$2,689,599	$951,989	$1,491,959	16.2%	6%	$482,076
1910	12,910,104	2,931,441	915,469	1,712,578	10.1	6	571,024
1911	11,732,125	2,527,505	895,447	1,383,835	8.0	6	182,323
1912	14,520,416	3,746,890	974,082	2,503,337	9.8	6	1,144,492
1913	15,443,246	3,826,703	1,085,894	2,459,729	11.5	6	959,729
1914	14,828,981	3,392,646	1,113,576	2,009,733	6.9	6	509,733
1915	15,617,968	4,004,798	1,208,020	2,535,681	9.0	6	1,035,681
1916	17,342,366	6,205,435	1,799,000	4,075,556	8.8	6	2,574,774

Dividends

Consolidation Coal is one of the oldest in the country, having been incorporated in 1860 under the laws of Maryland to operate a coal property in George's Creek, Cumberland coal region. Since that time it has added to its holdings until it now operates about 90 bituminous mines situated in Pennsylvania, Maryland, West Virginia and Kentucky. Its dividend record of recent calendar years is an interesting one. In 1884-5 the company paid 1 per cent on its stock, but only ¾ per cent in 1886. In 1887 it paid 1½ per cent, in 1888 2¼ per cent, and in 1889-1903 2 per cent. After that its affairs began to be more prosperous. In 1904 it paid 4 per cent, 6 per cent in 1905, and 8 per cent in 1906-08. In 1909 a stock dividend of 60 per cent was declared and the regular rate reduced to 6 per cent, where it has since remained. In February of 1917 the company increased its capitalization from $39,190,000 to $45,000,000 and paid a stock dividend of 5 per cent. In the current month an extra dividend of 3 per cent was declared and paid. From the foregoing it will be perceived that the stockholders in late years have fared exceedingly well.

It is unfortunate that at the time this is written no authoritative figures on 1917 earnings are available, but since the company's management has always been most conservative in the matter of dividend distributions and evidently felt that last year's showing warranted an extra of 3 per cent, it may be safely assumed that the 1917 year makes a very favorable comparison with 1916, when better than 16 per cent was earned.

Prospects for the Stock

At 104 the stock yields only 5.7 per cent on its regular dividend of 6 per cent, which is not a high yield on an issue of this class in times like the present. But the company has demonstrated that it can do considerably better than 6 per cent with coal around present prices. The relatively high market quotation is a reflection of hopes for further "extras." Consolidation stock is one which should be bought for the long pull. The holder should look for returns in the way of regular dividends and "extras" rather than from any considerable advance in market quotations.

Pittsburgh Coal

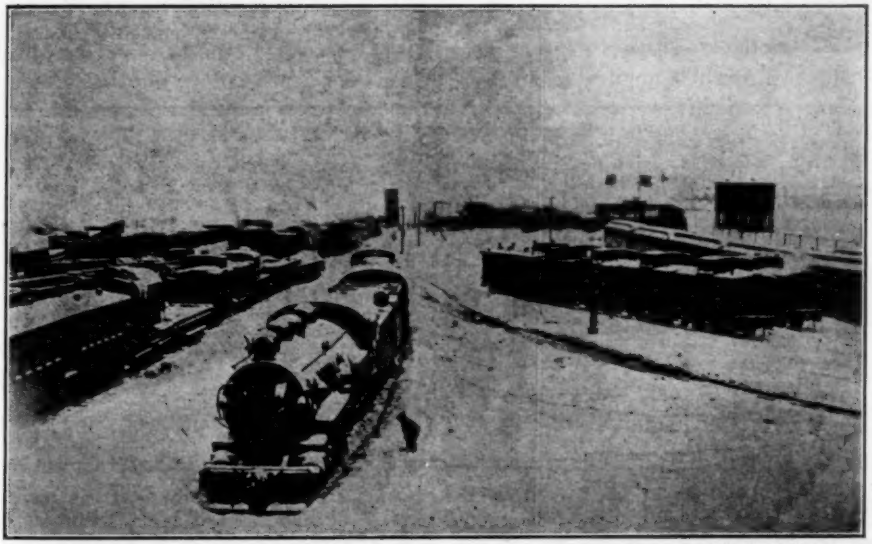
When we last discussed this company at length, its common stock was selling at about 56 a share. Since that time it has seen a low of 37½, registered in December, and now is quoted at around 53 per share.

The war has been a boon to Pittsburgh Coal. Glancing at table herewith one per-

ceives that before the war, while the company earned its preferred stock dividends with fairly comfortable margins of late years on the average, there never was very much left for the common stock. Even for 1916 the balance for the common was only equivalent to approximately 4 per cent. In the decade 1907-16 inclusive the total of net profits available for dividends was $18,512,055, or an annual average of $1,851,205, which was equal to a total of 68.4 per cent., on the preferred or an annual average of 6.8 per cent. In other words, the company had failed to earn its 7 per cent dividend rate, which attests to the fact that it was considerably over-capitalized. As a result the old preferred stock showed accumulated back dividends equivalent to approximately 47 per cent. at the end of 1916, and a plan of readjustment which should clear up these accumulated dividends and place the capitalization on a more substantial basis, was determined upon.

The holding company, that is the Pittsburgh Coal Co. of New Jersey, was merged into the operating company, i. e., the Pittsburgh Coal Co. of Pennsylvania, the readjustment plan providing for the payment to the preferred stockholders of a dividend of 33 1/3 per cent. in 6 per cent preferred stock of the Pittsburgh Coal Co. of Pennsylvania. The assets of the old company passed to the Pennsylvania and each holder of preferred stock of the old company received for each share a share of the preferred of the Pennsylvania. Holders of the old common stock received share for share, common stock of the Pennsylvania company.

The result of the plan was that while it increased the amount of the preferred stock outstanding the reduction from the dividend which the stock bore from 7 per cent to 6 per cent. slightly decreases the total amount required to be earned to meet dividend requirements. Accrued unpaid dividends on the new preferred bear interest at the rate of 5 per cent. per annum and the preferred, after receiving 6 per cent. in dividends in any one year, shares alike thereafter with the common stock in further dividends declared.



—The Black Diamond.

One Reason for the Coal Shortage—"Killed" Engines in the Anthracite field

Although the official report for 1917 is not at hand as this is written, we may state that last year was by far the best in the history of the company.

The following excerpt from a recent Pittsburgh despatch gives something of a line on how the company fared in 1917:

"While earnings for 1917 and the financial position of the company seem to warrant consideration of a dividend payment on the common shares, it is the judgment of the board that no such action should be taken until the application of the income and excess profits tax law to the earnings of the past year and the outlook for business in 1918 become clearly indicated."

In other words, the company has the money and could have paid a dividend if there had been no uncertainty as to the immediate outlook.

Uncertainty of Coal Situation

The coal situation in this country appears to be as badly muddled as anything could be and in view of this and the many possibilities which may eventuate it is exceedingly difficult to forecast the probable course of events and prices. There is the not remote possibility that the present governmental control of the coal situation may crystallize into a permanent federal control. The *Black Diamond*, a leading coal-trade journal, suspects as much and says in its February 9 issue:

"We believe that no sensible man—and Dr. Garfield is no fool—would thus turn the deaf ear to the pleas of experience unless he had a fixed purpose in mind. And that brings out the purpose behind this statement. We believe Dr. Garfield is trying to do something besides solve the coal question.

We will let his acts tell what it is. Last fall he confessed that he knew nothing about coal. Yet, before he could become informed, he built his organization—a volunteer administrator in each state and county. Also he attempted, in detail, to distribute coal to the people.

Thus before he could possibly know what the problem was and therefore how to solve it, he was ready with two programs—the distribution in detail of coal, and the substitution of government agents for the paid and trained distributing force of coal. This smells to heaven of propaganda.

In January, 1918, he said, privately, that fuel administration is a permanent part of the government's activity. He said then that the nation must hereafter undertake to distribute such necessities as coal."

If the government takes over coal and other vital raw material sources of supply what would its treatment be of companies like Pittsburgh whose common stocks are pretty thoroughly diluted with "water"? Conjecture is futile.

In regarding Pittsburgh Coal one must clearly differentiate between speculation and investment. As long as the war lasts and present prices continue the company can make excellent money—enough to not only secure the preferred dividends to make it likely that the common may be placed on a dividend basis. In which event it would seem quite probable that the issue might show higher prices and speculative profits on stock bought around its present price of 53. In times of peace and on an investment basis quite another conclusion is reached. Pittsburgh in times past has shown no ability to earn anything worth mentioning on its common stock, as we have already brought out. The present price for the stock is close to its high record and it would hardly appear conservative to buy for investment at this time.

TABLE II—PITTSBURGH COAL'S EARNINGS.

Years	Operating Income	Net income	Earned on pfd.	Paid on pfd.	Earned on com.	Year's surplus
*1907	$5,731,983	$2,958,593	10.9%	...	3.7%	$2,958,593
*1908	3,024,921	465,716	1.7	...	.....	465,716
*1909	3,448,395	810,099	2.9	...	.....	810,099
*1910	4,699,863	1,965,450	7.2	5%	0.2	611,860
*1911	4,044,504	1,391,937	5.1	5	.....	33,347
1912	6,913,684	2,025,483	7.4	5	0.4	671,893
1913	7,901,977	2,726,269	10.0	5	2.5	1,372,679
1914	5,465,414	1,371,059	5.0	5	.....	17,469
1915	5,567,314	1,653,524	6.1	5	.....	299,934
1916	6,958,458	3,143,925	11.6	5	3.9	1,793,028

*After deduction of interest on securities of subsidiary companies, current losses and employees' pensions.

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor*.

RAILROADS

CANADIAN PACIFIC—Gross Increases Only a Record—Statement for December and 12 months showed that during 1917 gross established a new high record of $152,389,334, an increase of nearly $12,659,647 over 1916, which held the record up to date. Coincident with the highest receipts is a drop in net of $3,911,278. Operating profits were exceeded in 1915-16 by nearly $3,000,000. In 1913, with gross $139,395,700, or $13,000,000 less, net was practically equal to 1917. If the special income increased as it did in 1916 over 1915, amount for 1917 would be close to $16,000,000, making total earnings on common over 17½%. In this case the "special income" increase would wipe out the decline of over $3,000,000 in the net operating earnings.

DEL., LACK., & W.—Earns $18.17—Report, year ended December 31, 1917, shows surplus $15,370,196 after all charges against $16,200,148 for 1916; equal to $18.17 a share compared with $19.15 and $12.96 in 1916 and 1915, respectively, on the common. Profit and loss surplus is $52,858,012, against $46,987,405 for 1916.

ERIE—5% Secured Notes—Secured notes, due April 1, 1919, selling at 94¼, yield 10.50%. There are $15,000,000 outstanding which were brought out April 1, 1917, at 98½, to yield slightly over 5¾%. For two years prior to our entrance into the war Erie was doing exceptionally well. For the year 1915, after paying interest on its entire funded debt net amounted to $6,016,220, while for the year 1916, after all charges, $4,631,912 was carried to surplus. Operating income for 11 months of 1917 amounted to $8,274,435, compared with $14,460,239 for the same period in 1916, a decrease of $6,185,804. The notes are secured by a deposit of collateral of par value of $26,789,000 with Bankers' Trust Co. of New York City, as trustee. In view of the equity in the market price of the bonds above the amount of notes outstanding, and the fact that the first consolidated mortgage general lien bonds are among the strongest issues of the company, being secured in part by a first mortgage, the notes may be classed as fairly well secured. Erie has not paid any dividends on its various classes of stock since 1907, but income amounting to approximately $59,000,000 has been used for improving the physical property.

N. Y., NEW HAVEN & HARTFORD—5% Notes Called for Redemption—Has called for redemption, on April 12, $241,000 face amount of its one-year 5% collateral gold notes, dated April 16, 1917, and maturing April 15, 1918. Authorization to issue 442,200 preferred shares at par is not to be accepted as an indication that this stock will be sold to fund the notes. Railroad people and bankers are awaiting some word from Washington. The reason that the Public Service Commission authorized $44,220,000 of preferred stock, instead of the $45,000,000 originally asked by the New Haven, is the fact that the floating debt has been cut down by over $1,000,000. The act passed in 1917 by the Legislature gave New Haven the right to issue preferred stock sufficient to meet floating debt, with the approval of the Public Service Commission.

ST. LOUIS-SAN FRANCISCO—Interest on Adjustment Bonds—Announcement is made that company declared, payable April 1, six months' interest to Dec. 31, 1917, on the cumulative adjustment bonds. Net available amounted to $4,633,558. The 3% payment will require $1,162,000.

SOUTHERN PACIFIC—Satisfactory Showing—In 1917 increased gross revenues 18.7%, net revenues after taxes gaining 14.4%. This in the face of important advances in costs, is satisfactory. Operating ratio for 1917 was 62.17%, against 63.07% in 1916. Report of operating profits indicates that earnings were about $17 a share compared with $12.63 in 1916.

SOUTHERN RY.—December Showing Favorable—December earnings were more favorable than those reported by some other railroad systems for the similar period in that gains in both gross and net as compared with the same month a year ago were indicated. The rise in the former was approximately $1,300,000 or 18.42% and in the latter $241,317 or 8.88%. During the six months ended December 31 last gross gain was $9,328,000 or 23.36% and net $2,000,000, or 16.58%.

UNION PACIFIC—Common Placed on 10% Basis; Regular 10% Rate Justified—In placing common on a regular 10% basis directors merely restored the issue to the dividend position that it had maintained, except for eighteen months, since the latter part of

1906. The dividend was reduced in 1914 to 8%, and regular quarterly dividends have been paid until January, 1918. In January, 1917, a 2% extra was made from 1916 earnings, and quarterly extras of 2% annually, with income from sources other than operating and fixed charges calculated on the 1916 basis, some $16.66 a share, or an average for two years of over $17 a share. On the basis of earnings the 10% rate is justified, as profits in 1916 were equivalent to $17.63 a share, and 1917 earnings, with income from sources other than operating and fixed charges calculated on the 1916 basis, $16.66, or an average for the two years of over $17.

WESTERN PACIFIC—Earning 1.74% on Common—Inauguration of dividends at 6% on the preferred directs attention to satisfactory progress in an operating sense. For the 12 months ended Nov. 30, 1917, net of the operating company, Western Pacific of California, were $3,329,139, and surplus after bond interest, $2,475,760. The surplus earnings of the railroad company accrue to the Delaware corporation, whose preferred and common stocks the public holds. The balance of 12 months' net, after allowing for the full 6% dividend on the preferred stock is equivalent to 1.74% on the $50,000,000 common stock. Under the reorganization the old first mortgage bondholders who subscribed pro rata to the new first mortgage bonds of the Western of California received 55% in preferred and 95% in common of the Delaware corporation. Those who did not subscribe received 50% in preferred and 75% in common. The 6% dividend is, therefore, equivalent to 3.3% on the old bonds to the subscribing bondholder and 3% to the non-subscribing bondholder. Western of Delaware brought suit against Denver & Rio Grande on account of its defaulted guarantee of interest on the old first mortgage bonds. Judgment aggregating over $38,000,000 was returned and this judgment was recently confirmed by the Court of Appeals, which attorneys say is in effect the court of last resort in this litigation. This places the holders of stocks of the Delaware corporation in virtual control of the future of Denver & Rio Grande. The future relations of the two properties are in process of adjustment, and it is believed that the result will be favorable to Western stockholders.

INDUSTRIALS

A. G. W. I. LINES.—$23,000,000 in Cash—After paying $5,000,000 for company taxes Gulf is understood to have in cash and Liberty bonds a total of nearly $23,000,000. This it is planned to keep intact. After the war Gulf may invest in new tonnage; needed if the common is to maintain a $10 dividend. It is the ambition to make the common a regular $10 stock; not assured on existing tonnage under old-time conditions.

ALLIS-CHALMERS—Earning 11% On Common—Operations in the fourth quarter of 1917 resulted in the best showing of the year. Total sales showed an increase of $1,929,894, or 30%, over the third quarter, while net profits showed an increase of $268,533, or 29.2%. Gross sales were $26,-129,314, 34.4% larger than 1916. In last quarter company was producing at the rate of $32,867,000 per annum of gross sales. In 1917 net profits were $4,010,488, which after deduction of dividend on preferred is equal to 11% on the large issue of $26,000,000 common. On the preferred earnings were: 24.3% in 1917 against 19.97% in 1916 and only 6.8% in 1915.

AMERICAN CAN—1917 Earnings Record—Net of $21,699,042 in 1917 was almost 100% greater than in the best previous year, 1915. Company charged off so heavily for taxes, depreciation and accumulated preferred dividends that the final balance for the common of $5,309,674 was equal to 12.8 %, against 12.3% in 1916. On a strictly comparative basis, Can earned nearly $30 against $12 the previous year. The set up for taxes was $500,000 a month. During the last two years company earned a balance for its common of $25, not divided. Actual earning power last year was $21 per share.

AMERICAN INTERNATIONAL—Reported Sale of Alcohol Shares—Reported has been selling its investment in Industrial Alcohol common. If this be correct, it has realized practically the price it paid, and 32% in dividends, minus a reasonable interest charge on the investment. This represents a substantial profit. In selling it is not necessary to infer that International has found anything wrong in the company's situation. It is likely that it is taking a profit and getting funds to use for some other undertaking. Pres. Stone, sent a telegram, to Attorney-General, inviting the most complete inquiry into the Corporation activities in construction of Hog Island shipyard, and offering to throw open records for inspection.

AMERICAN MALTING—Denial of Report—An official has denied a report published in a morning newspaper that company was about to liquidate. (See article.)

AMERICAN TOBACCO—Earning $26 a Share—1917 report, to be issued early in March, probably will show between $25 and $26 a share for the $40,242,400 common stock after preferred dividends, after allowances for war taxes, which ran in excess of $1,-000,000. Net for the year gained in the neighborhood of $1,200,000, which amounts to approximately 3% on the junior issue. Earnings of close to $26 a share in 1917 compare with $23 in 1916 and $20 in 1915. Company on Dec. 31 closed its best year since the dissolution of the so-called trust. Sales

for the year amounted to $90,000,000, as compared with slightly more than $70,000,000 in 1916. This is a gain of 28%. The 1916 business represented the company's previous record year. December business was in excess of $9,000,000. December the year before was approximately $5,500,000, showing a gain of 55% for the former month. Earnings of the American Cigar Co., a subsidiary, will show close to $17 a share, compared with slightly over $12 in 1916. Including subsidiaries, the combination did a gross business in 1917 of probably close to $140,000,000. This compares with $110,000,000 in 1916 and $99,000,000 in 1915.

ARMOUR & CO.—Report for 1917—Report for the year ended Oct. 27, 1917, shows remarkable prosperity. After payment of bond interest and dividends there was a surplus of $19,293,563, which added to previous surplus amounted to $56,126,679. Net working capital as of Oct. 31, 1916, was $96,721,263, and with the addition of the surplus earnings of 1917 should be approximately $116,000,000. With such a huge surplus and net working capital available the bonds have apparently been neglected, selling around the lowest price, 84½, to yield about 5¾%. The $50,000,000 4½% real estate first mortgage bonds outstanding, redeemable at 105, are less than half the amount of net working capital of the company, so that it would be logical if the company should some day decide to retire the bonds.

BETHLEHEM STEEL—Additional Earnings for Common—Has on books unfilled orders $450,000,000, comparing with $193,000,000 at close of 1916 and $175,000,000 at close of 1915. Previously $30,000,000 was a satisfactory figure. Assuming a profit of 10% on this total, above charges, there is in sight some $70 per share additional earnings for the common eventually. President Schwab, mentioned recently that he had contracted with Government to furnish within 15 to 18 months as many torpedo boats as there are in the combined navies of the world. To cost from $2,000,000 to $2,500,000 apiece with a speed of 37 knots.

BOOTH FISHERIES—Earnings Estimate—Understood annual report will show net 20% greater than estimated. This would mean balance for dividends of $3,000,000 or $10 a share net.

CHANDLER—Earned $34 a Share—Income account, year ended December 31, 1917, compares as follows:

	1917	1916
Gross profits	$3,248,172	$2,401,862
Total income	3,277,715	2,433,770
Net profit	2,382,403	1,716,166
Surp. after divs....	1,472,403	1,016,166

Balance sheet, 1917, shows surplus $2,663,189, compared with $1,190,786 in 1916. 1917 net was $34.03 a share compared with $24.51 in 1916. As of Jan. 1, 1918, Chandler owed not a dollar and had $1,000,000 cash on hand.

CLUETT, PEABODY—Earned $11.33 a Share—After dividends on the pfd. balance of 1917 net was equal to $11.33 a share, compared with $12.90 in 1916.

DISTILLERS'—Bonds Reduced to $6,000,000—In January, Bonds outstanding were about $6,000,000. This for a company with $14,000,000 of quick assets contrasts with $15,633,000 2½ years previously. If the war last six months longer company likely will wipe out the last of its bonds.

EMERSON PHONOGRAPH.—Records Presented to Army—The fighting boys are to have a good time "over there" through the generosity and patriotism of the company, wherever there is a phonograph nearby. Over 10,000 Emerson records have been sent via Y. M. C. A. to the trenches. The treat in store is twofold; each disc contains a popular selection on each side. The Secretary states: "This is the first of a series of contributions which we anticipate making. It is only our duty. We hope to see our example followed, by phonograph companies, and others whose product would afford entertainment in camp, or trench."

FORD MOTOR—Government Work—Estimated company soon would have 75% of factory capacity active on Government work. In addition to submarine chasers. Detroit plant is manufacturing Liberty aviation motors, caissons and ambulances, turbine engines and other equipment. Company continues to make cars, although on a reduced scale.

GENERAL MOTORS—Undivided Profits for 1917—Understood sales for 1917 were 203,000 cars and undivided profits approximately $33,500,000 before war taxes. Thus, balance for the common was $39 to $40 a share. A merger, with Chevrolet is confidently anticipated.

MIDVALE—Increased Net Neutralized by Taxes—Company during 1917 averaged to earn practically $6,000,000 net a month before interest, taxes or depreciation. This becomes eloquent when contrasted with average net $3,250,000, 1916. Final balance of $17.12 per share is not enough different from the $16.08 in 1916 to challenge attention. Actual net profits of $71,264,506 were 87% larger than in 1916; the scope of the company's expansion becomes more specific.

The fact that Midvale earned only $1 a share more in 1917 is explained by the taxes. In 1917 corporation charged against earnings $27,360,270 for federal taxes, or $13.68 per share. On a basis of strict parity with 1916 Midvale earned over $30 against $16.10. Taking actual figures in two years Midvale has earned a free balance of $33.22 of which $6 has been returned in dividends. There-

fore, $27.22 has been added to stock out of profits in plant or working capital.

NATIONAL BISCUIT—Profits Affected by Wheat Shortage—The war has hurt the company, and conversely, peace should help it. It is one of the greatest single consumers of flour in the world. Under food conservation plans it is certain to have trouble in getting the flour it needs. It will have to diversify its products. In the process of adjustment net profits will suffer. Inside interests feel that Biscuit is so solid a property that it will be able to continue preferred and common dividends.

NATIONAL ENAMELING & STAMPING—Report for 1917—Shows net profits of $5,618,548 before deducting $1,100,000 estimated allowance for war taxes, compared with $2,731,183 net profits for 1916. After deducting $1,100,000 for war taxes, $118,903 bond interest and sinking fund of $154,000, there remained a balance of $4,245,555 available for dividends. Preferred dividends in 1917 totaled $598,262, leaving a surplus of $3,647,293 applicable to the $15,591,800 common stock, equal to $23.39 a share, compared with $11.60 a share earned on the common in 1916. Balance sheet shows surplus of $5,919,028, compared with $2,895,408 Dec. 31, 1916. Company has declared a dividend of 6% on the common for 1918, payable quarterly on March 20 to stock of record Feb. 28, May 31 of record May 11, Aug. 30 of record Aug. 10 and Nov. 29 of record Nov. 9. In 1917 the company paid 4% on the common stock. The regular 7% for 1918 was also declared on the preferred issue.

N. Y. AIR BRAKE—Earning Expectations—Air Brake has been a war success. In three years it earned about $130 per share for its common of which $90 has never been divided. In 1918 profits of $40 to $45 are considered a reasonable expectation.

PACIFIC MAIL—Earnings Expansion—The wisdom of the new interests in resuming service to the Far East was amply demonstrated by the results attained in 1917. The revenues of the trans-Pacific line with the inauguration of full regular schedules in March, 1917, were increased to $3,473,278 from $178,787 in 1916, and net earnings, after depreciation charges amounted to $1,103,618, against a trifling $14,799 in the previous year, representing an increase of $1,088,819. The Panama line also showed high gratifying results. Gross earnings were $3,479,531, an increase of $1,361,694, or 64.2%. Net after depreciation charges amounted to $1,397,608, an increase of $538,454, or 62.6%. The combined net income of the two lines, and including certain miscellaneous earnings and interest received, aggregated $2,454,631, an increase over 1916 of $1,628,661, or over 197%. After deducting the large appropriation of $900,000 as a reserve against taxes, the balance left was $1,554,631. Dividends on preferred call for $119,000, so surplus available for common was $1,435,631. There is $1,150,000 common outstanding. The balance is equivalent to nearly 125% on the common, or $6.24 per share.

REPUBLIC STEEL—Led Steel Earnings in 1917—Led all leading steel companies in dollars per share earned. The surplus available for common was about $53 against $48 in 1916. This rate exceeds Steel, Midvale or Lackawanna. Cash position is unusually strong, compared with corporations that have paid large extras and heavy outlays for new construction.

SEARS, ROEBUCK—Profits, 1917 Gain $2,000,000—1917 report showed largest business in its history. Gross sales were $178,268,223, an increase of $31,429,712, or 21.41%, over 1916. Compared with the sales five years previously, 1913, the 1917 business shows an increase of $82,863,435, or 86%. The company charged $4,000,000 for Federal taxes and the employes' pension fund increased $500,000, resulting in a decrease in the amount available on the common. The percentage earned was further reduced by the fact that there was $75,000,000 common outstanding in 1917, against $60,000,000 in 1916. Working capital at the start of the new year was $24,000,000.

SLOSS-SHEFFIELD—Net 13 Months $17.47—Company reported net for 13 months ended December 31, 1917, after charges, $2,216,353, compared with $1,990,675 in the fiscal year ended Nov. 30, 1916 equal to $17.47 a share on the common stock after pfd. dividends, or $15.77 annually compared with $15.22 for the 1916 year.

STUDEBAKER—50% War Producer—About 50% plant capacity will henceforth be devoted to shell production. Figures for the year 1917, will show between 11% and 12% for the common which would compare with 26.14% in 1916 and 27.46% in 1915.

U. S. STEEL—Unfilled Tonnage Jan. Increase—Tonnage statement showed 9,477,853, Jan. 31, 1918, against 9,381,718 Dec. 31, 1917, an increase of 96.135 tons. According to trade estimates Steel's subsidiary companies' operation in January averaged between 45% and 50% of capacity. Transportation conditions since Feb. 1 have not improved, with little relief in sight, no great change in tonnage figures can be expected in February. Steel is receiving very few orders from domestic consumers. Most of its business is in connection with war orders. Net in the fourth quarter after taxes were $59,724,125, and surplus after charges, $16,258,252. Assuming net in March $16,000,000, total for first quarter of 1918 would be $41,670,000. Steel in first quarter 1918 will have to show net $45,000,000 to meet charges, including the extra.

Investment Inquiries

A Gilt Edge Railroad Investment

J. F. H., Scranton, Pa.—Chicago Northwestern is a gilt-edged railroad investment, and can be regarded as one of the strongest of the railroads on the list. If you wish to make a purchase and do not mind if the stock should sell slightly lower, the time to buy it is now. This company pays $1.75 quarterly, or $7 per share per annum, on its common stock, and for a long pull investment we recommend it.

Pacific Tel. & Tel. Not an Investment

J. M. C., Akron, Ohio.—Pacific Telephone & Telegraph is not an attractive investment issue. No dividends are paid on the common stock, and in view of the heavy expenses under which the telephone company has labored during the last year, we do not believe that any of the issues in this class offer very bright prospects for profit for the duration of the war. We do not recommend the purchase of Pacific Telephone & Telegraph Common at the present time.

American Telephone & Telegraph is a reliable long-pull investment stock, and upon any recession from present prices of a substantial nature, we recommend its purchase. It must be borne in mind, however, that in buying this stock, its earnings are more or less stabilized under war conditions.

Low Priced Gold and Silver Issues

N. M. E., New York City, N. Y.—The meritorious low-priced gold and silver stocks can be bought discriminatingly by the investor who purchases them outright and is prepared to ignore temporary fluctuations or declines. If this is your position, we regard Hecla and Cresson Gold with favor. Hecla, in its recent decline, discounts the change in situation due to the levying of a heavy war tax, and should not be sacrificed if you are a holder. Its intrinsic value is probably higher than the present market price, and we expect to see the stock go higher with any permanent improvement in the market. We do not recommend an extensive purchase, because the present is not "buying time."

We do not favor Marsh, which has now entered the stage of extreme uncertainty. It is a gamble, with unattractive prospects.

Goodyear 2d Pfd. Stock's Present Status

R. H. D., Pittsfield, Mass.—Goodyear Tire and Rubber 8% 2nd pfd. is not recommended for purchase, although we consider the stock fairly attractive from a speculative point of view. The point to be remembered is that there are so many seasoned dividend-paying preferred stocks selling at bargain levels that this issue suffers by comparison. The company has been extremely prosperous during the war, but with a return to normal conditions, it is a question whether its normal prosperity will continue, and the outlook certainly favors lower prices for second grade securities of this character. Assuming that you seek safety of capital and a permanent return on your money, we can recommend an issue like Beth. Steel new 8% pfd. in preference.

Cosden's Disproportion of Capital

S. T. H., Tacoma, Wash.—In a recent issue of the MAGAZINE there appeared an article discussing Cosden & Co., in which mention was made of the intimation that there had been too much "Wall Street" connected with the company. We are rather inclined to agree with this view of the Cosden situation because so much recent financing has been done that the company appears to be capitalized out of proportion to its normal earning power. It is not in a strong financial condition and we do not regard the stock as an attractive purchase for investment.

Toledo Traction's New Bond Issue

H. B. N., Philadelphia, Pa.—We have carefully read the circular you enclosed on the Toledo Traction, Light & Power Company's new issue of First Lien 7% bonds, and our opinion is that they represent a desirable investment in every way. We do not, however, see that they offer any particular advantage over many of the short term notes now on the market, and which may be classed as securities already established on a firm marketing basis, such as the General Electric 6s, the Southern Railway 5s and the Bethlehem Steel 5s. The two latter issues yield over 7% at present prices and are due in 1918 and 1919, respectively. The General Electric 6s yield 5.80% and are due in 1920.

Aurora, Elgin & Chicago Not an Attractive Investment

L. R. G., Baltimore, Md.—Aurora Elgin & Chicago preferred is occasionally traded in, but there does not appear to be any market at the present time for the common issue. Both classes are very inactive stocks and if you hold them, we suggest that you sell out, as we do not advise our subscribers to tie up their funds in inactive securities of this class. The Aurora Elgin & Chicago Railroad Company reported earnings for the nine months ended Nov., 1917, as $1,638,859, as against $1,537,371 in 1916, for the same period. The surplus after charges, however, amounted to but $92,045 for the nine months, as against $141,728 in 1916. It is quite evident that the large increase in the costs of materials and labor and heavy taxes have considerably cut into the net earnings of this company.

Commonwealth Power & Light Operating Under Handicap

C. R. S., Albany, N. Y.—Commonwealth Power, Railway & Light preferred and common, like those of all other Public Utilities,

have suffered in recent markets, and since the heavy reductions in earnings are likely to continue as long as the war lasts, there is not much encouragement for the hope of immediate improvement in the prices of the stocks. The preferred dividend appears fairly certain of continuance, but the common dividend is not certain. We believe the common has considerable intrinsic merit, however, and if you are an owner and would have to sell at a heavy loss now we should prefer to advise you to keep it in the face of a dividend reduction and buy more of it on a further decline. The preferred stock is worth holding, for the yield is certainly attractive and there is reasonable assurance that the dividend will be continued. In six years the company has earned an annual average of 15.41% on its preferred stock and 5.49% on the common stock after allowing for preferred dividends.

United Eastern's Dividend Outlook

W. K., Seattle, Wash.—United Eastern is a very attractive gold mining stock which has recently been put on a dividend basis and whose earnings justify the expectation that increases in dividend rate will be warranted in the future. There is the speculative prospect of the discovery of new ore bodies at lower levels which have not yet been drilled.

Okmulgee and Oklahoma

W. C. M., Muskogee, Ohio.—The oil stocks and their position were so fully discussed in Dec. 8 issue of the MAGAZINE that we believe it is unnecessary for us to go into details in this letter. Suffice it to say that we regard Okmulgee Producing & Refining as the riskiest sort of a speculation, a company whose prospects of developing into a sound enterprise were very much injured by the greed of promoters who saddled the company with a capitalization that it will be hard to justify.

Okla. Prod. & Refining is also heavily capitalized, but not to the same extent as Okmulgee. It is not the commercial affairs, but the financial affairs of this company that cause apprehension as to the future. Do not buy or hold the stock unless you are ready to accept a considerable speculative risk.

United Marble Affected by Building Trade Conditions

F. M. H., Brunswick, Ga.—Under normal peace conditions, when building is being extensively carried on, the shares of the United Marble Company should be a fairly good investment. Under present war conditions, with the attendant difficulties in transportation and comparatively little building going on, the company will probably labor under heavy handicap during 1918, and unless your stock now shows you a loss at the market prices, we suggest that you get out of the same and reinvest your funds in one of the seasoned, active securities in the market which appear to offer bright prospects under both war and peace conditions. Such issues are described in the MAGAZINE from time to time.

Sinclair Dividend Situation

P. S. J., Newport, Va.—Sinclair Oil may go higher in the event of a rally in the general market, but we believe any recovery in the stock will be of a temporary character only, and do not expect that it will be established substantially above its current selling price between now and the time its first notes are due. As a matter of fact, we do not expect that the company will be able to conservatively continue the present dividend payment for very long. We have, therefore, been advising that holdings of the stock be sold.

Beth. Steel 8% Pfd. Attractive Now

C. G. A., Norfolk, Va.—Beth. Steel new 8% preferred is favorably regarded by us for permanent investment. The issue is convertible into the common "B" stock and is prior to all other issues as far as dividends are concerned. The par value is $100 and selling around $100, the yield is around 8%. The stock is selling low because it has not been fully distributed to the public. We expect to see much higher prices for these shares eventually. We have been consistently recommending the purchase of this issue.

An Inactive Rail Issue

S. R. O., Chicago, Ill.—Des Moines & Fort Dodge Railway preferred is quoted nominally around $25 and the common $2. The market in these stocks is comparatively inactive. Approximately 95% of the shares of this road have been absorbed by the Minneapolis & St. Louis Railroad Company. Unless your holdings show you a substantial loss at current prices, we do not see any advantage in your retaining this stock and tying up your funds in an issue which does not offer particularly bright prospects for the future. There are many attractive purchases among the rails at the present time described in the Feb. 16 MAGAZINE, and we would suggest that you study these selections carefully.

Magma's Status

K. L., Brooklyn, N. Y.—Magma Copper may decline in sympathy with a further decline in the copper stocks, but its ultimate position is secure, we believe, and we do not see any justification for selling the stock providing you are holding it for a long pull. The point to remember about Magma is that the mine is largely unexplored and that development work may result any day in a "new strike," which would have an emphatically favorable effect on the market of the stock regardless of general conditions. That is the reason we advise holding it even in a declining market.

PUBLIC UTILITIES

American Waterworks and Electric's Status

Speculative Possibilities for the Long Pull—Progress Since Organization—The Management

By F. L. FONTAINE

A NUMBER of far-sighted men conversant with public utilities, I am told by people who ought to know, have recently been buying their favorites among public utilities for the "long pull." How long the pull will be, depends almost entirely on the duration of the war.

In brief, the argument back of this belief is about as follows: Public utilities have passed through their worst; namely, increased operating expenses and an abnormal increase in the cost of fuel, oil, and other materials, and a disinclination on the part of public service commissions to grant increases in rates. Almost without exception there has been what may be termed a normal increase in gross of which little has been saved for net. But State commissions have now begun to grant increases and operating expenses and fuel costs appear to have stopped advancing. Peace will bring more nearly normal conditions. Gross earnings will continue to increase, due to a normal growth as a result of increased service sold.

The Return of Peace

Whatever may be thought of the soundness of this argument as applied to public utilities in general, it is reasonable to conclude that the return of peace will bring a considerable change for the better to the properties controlled by the American Waterworks & Electric Co.

This company has just attained a position of exceptional promise when the condition brought on by our entrance into the war set it back. But the company and its subsidiaries are in a financial position such as gives promise of their being able to weather the storm. With the return of more nearly normal conditions, it promises to continue the improvement now held back on account of conditions, and its stocks selling at their present low levels would seem to offer a very fair speculation.

There are three different issues of stock, par value $100 per share. All three are authorized to the amount of $10,000,000, of which there is now outstanding $4,450,000 of the 7 per cent. cumulative first preferred stock, $10,000,000 of the participating 6 per cent. preferred and $7,200,000 of the common. The first preferred paid its initial quarterly dividend last August, and at 61 it is now yielding a return of about 11½ per cent. The participating preferred does not pay dividends, and it will undoubtedly be some time before it will be in a position to pay any. But the stock sells only around 11. If the war should end in 1918 this stock ought to increase sharply in value before the close of 1919. The common stock must be considered only for the very long pull. But in the next four or five years it ought to sell a good deal above its present price. The possibility of dividends is very remote. But with a substantial improvement in earnings it could be expected to advance

History

The American Waterworks & Electric Co. was organized as a result of the reorganization of the old American Waterworks & Guarantee Co.

The reorganization was very drastic. Under the plan the new company was relieved of certain guarantees which the old company had been bound to, but will receive 49 per cent. of the equities in the liquidation of certain of the land and irri-

gation enterprises on the payment of the debts of these companies.

The principal earning power of the company lies in its ownership of securities, of water supply companies, and electric railway and power companies. The company owns practically all of the stock of some 29 water companies operating in the states of Arkansas, Alabama, Pennsylvania, Tennesee, Wisconsin, Iowa, Illinois, West Virginia, Missouri, Indiana, Ohio, Virginia, and Kansas. Of the $33,104,900 bonds of these companies, the parent company owns $8,687,400 of them.

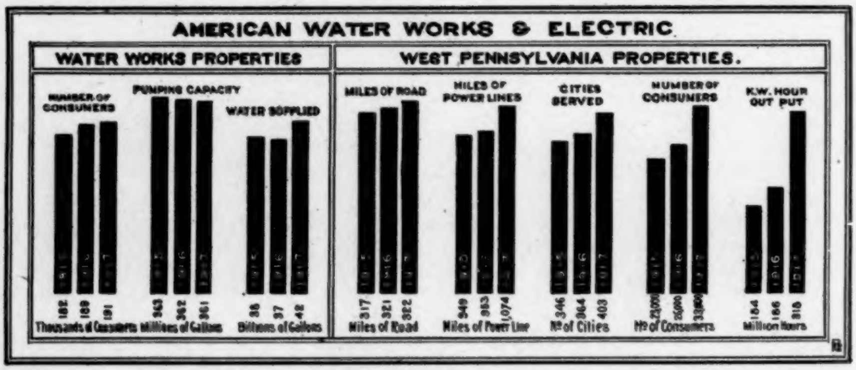
Its Electric Properties

Its electric properties are practically all consolidated under the control of the West Penn. Traction & Water Power Co. This concern is in turn a holding company, the principal component parts of which are the West Penn. Traction Co., West Penn. Rys. and the West Penn. Power Co. The latter, particularly, was organized in March, 1916, and has exceptionally good possibilities.

Progress of Earnings

As the earnings statement shows this company, which was organized, has done mighty well. In the two years ended June 30 last, total income increased $543,000 or more than 50 per cent. Expenses and taxes of the parent company increased only several thousand dollars, with the result that whereas the net income in 1915 was equivalent to only 9.57 per cent., on the first preferred stock, in 1917, it was 12.96 per cent. The interest charges have had a very substantial increase, but this has been due to additional collateral trust bonds which have been issued, and which are now outstanding in the public's hands to the amount of $16,300,400. But the proceeds from the sale of these bonds has been used in financing, additions, betterments, etc., of the subsidiaries. The result of this is shown in the increased income which the parent company has been getting from the stocks and bonds which it owns.

It is interesting to note that the American Waterworks & Electric Co. in its income account includes only the dividends which it receives from its preferred stock of the West Penn. Traction & Water Co. A number of public utility holding companies include all undistributed earnings of subsidiaries, in their statement of income. Had the Amer. Waterworks & Electric Co. followed this policy, its earnings would have been considerably larger. In fact, its share of the undistributed earnings of the West Penn. properties was equivalent to over 8 per cent. on its preferred stock.

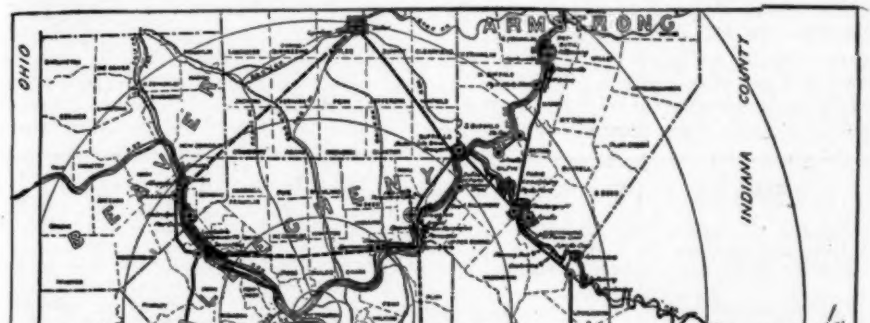


A development of big importance to the company, during the last two years, has been the success it has had in liquidating the bank loans to subsidiary companies. In 1914 when the property was reorganized, bank loans to subsidiary and allied companies aggregated $2,617,000. The greater part of this was covered by an agreement under which the American Waterworks bonds at 83 were advanced for collateral. The loans were extended for six years, with

the provision that 10 per cent. should be paid on February 1, 1916, and 22½ per cent. annually thereafter. On June 30, 1917, however, the loans had been reduced to $349,150, of which only $197,600 represented loans on subsidiary water works company. In other words, by paying off these obligations, the necessity of meeting the maturity of substantial amounts during a period of financial stringency has been eliminated.

the best possibilities lie in the West Penn. properties. Only recently a strong banking syndicate offered an issue of $1,500,000 West Penn. Power two-year, 7 per cent. collateral gold notes. These were brought out only on the first of the present month, but practically all of them have been sold.

The West Penn. Power Co. has done better during 1917 than the average public utility. In the 11 months ended November 30, gross earnings of $3,576,000



increased over 32 per cent. Net earnings increased about $59,000, or 4.8 per cent. While the company was not able to save any of its increase in gross for net, nevertheless the fact that it could show practically the same net earnings as last year, speaks strongly in its favor. As a matter of fact, the balance for the preferred

The water works properties have been making steady progress, but as the operating statistics in the graphs indicate they have not increased to the same extent as the West Penn. or electric properties have. The water works properties can probably be depended on to show a slow but gradual increase. But as I have stated

stock was equivalent to about five times the requirements of that issue.

Net earnings of the West Penn. railways of $3,096,500 actually showed an increase, and as fixed charges decreased about $95,000, the balance available for dividends on the preferred stock of that company, in the 11 months ended November 30, was $968,300, an increase of over $63,000.

The American Waterworks & Electric Co. owns $3,094,800 of the $6,500,000 preferred stock of the West Penn. Traction & Water Power Co., and $14,344,000 of the common. Dividends on the preferred stock were resumed on March 15, 1917, at the rate of 6 per cent. Judging by the combined earnings of the railways and the power divisions, the company should be able to continue these dividends. With this subsidiary continuing its preferred dividends, the dividend on the preferred stock of the American Waterworks & Electric ought to be continued. There are no nearby maturities of the holding company and there would seem to be nothing that should get it into financial difficulties. Its preferred stock must be considered more or less in the light of a speculation. But it is now paying dividends of 7 per cent., which were inaugurated last August. Last July it paid up its accrued dividends of 21 per cent., of which 3 per pent. was paid in cash and 18 per cent. in stock. As an indication of the speculative possibilities in the various stock issues of the company, it is interesting to note that last year, just before the back dividends were paid up, the preferred stock sold as high as 83, the participating preferred as high as 30, and the common around 13.

The properties are well managed. Mr. H. Hobart Porter, of Sanderson & Porter, the large engineering house, is president. The management since the reorganization has been conservative and progressive, and unless they thought the company was in a position to maintain the first preferred dividend, I doubt if they would have inaugurated dividends, on this issue. It was at a time after this country entered the war.

The collateral trust 5 per cent. bonds of 1934 are now quoted around 64, at which price they yield almost 8 per cent. on a straight income basis. Public utility holding companies' securities are all selling at a big decline as compared with prices of a year and a half ago. Naturally, this company's securities are not seasoned, and with the highest grade securities selling on such a high income basis, the relatively low selling price of this concern's bonds is not as significant as it might be at other times. The company appears to be in a position to weather whatever storm we may expect, and as stated above, for that reason its securities for the long pull appear to offer good speculative possibilities for those who are patient.

AMERICAN WATERWORKS & ELECTRIC (INCOME ACCOUNT JUNE 30)

	1917	1916	1915
Proportion net income from subsidiaries	$688,357	$653,156	$646,013
Dividends West Penn Tr. & W. Pr. Co	139,266	....	....
Inc. from stocks and bonds and balances	710,393	713,654	348,463
Total income	$1,538,016	$1,366,810	$994,475
Expenses and taxes	75,434	67,719	48,353
Operating income	$1,462,582	$1,299,092	$946,122
Bond interest	746,508	719,341	399,660
Other interest	67,840	70,618	70,618
Net income	648,235	509,133	478,638
Previous surplus	220,810	49,152	89,970
Total surplus	869,075	558,286	568,608
Special surplus fund	250,000	250,000	500,000
Adjustments	177,861	87,446	19,455
Back dividends paid in cash	150,000	....	....
Profit and loss surplus	$291,214	$220,840	$49,152

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

B. R. T.—$3,000,000 to Be Spent—After a brief rehearing before Public Service Commission order of that body requiring the Brooklyn Rapid Transit Co. to purchase 250 cars, the company entered into a compromise agreement for the immediate purchase of 100 large subway and elevated cars and 50 trailer cars at a total cost of more than $3,000,000; also to run two-car trains on the surface lines; 150 cars to be ordered immediately will carry more passengers than the 300 surface cars involved in the Commission's order.

HAVANA POWER—Earned $9.24 a Share—According to statement filed with the Stock Exchange balance earned in the 11 months to Nov. 30, 1917, on $14,948,406 was equal to $9.24 a share.

HUDSON & MANHATTAN—Refunding 5s Record Advance—These first and refunding 5s have made the largest advance of any bond on the Stock Exchange during the year, closing Feb. 18 at 60½, up 12⅝ from a low in December. They were fully analized and recommended at 50 in the MAGAZINE OF WALL STREET, Feb. 2 issue. Despite general decline in earnings of public utility corporations during 1917, company's earnings have been approximately as large as those of 1916, which was the best year in its history. Net for 1917 was approximately $3,175,657, compared with $3,142,079 for 1916. This not only covers the interest on the first and improvement bonds, but also leaves about 2% for the adjustment income 5s. Government control is announced.

KINGS COUNTY ELECTRIC—Report for 1917—Company's 1917 balance after charges is $8.56 a share on $17,156,500 capital stock, compared with $11.88 in 1916 on $15,651,200.

LACLEDE GAS—Report for 1917—Shows net $2,247,714, against $2,486,695 in 1916. After charges and preferred dividends there remained $918,180 for the common, or $8.58 a share, against $11.21 the year before.

PACIFIC GAS—Unite to Save Fuel—This company, Great Western Power and Sierra & San Francisco Power serving 38 counties in Northern and Central California, have entered upon an agreement for the conservation of fuel oil by which the operation of the companies' steam and electric plants will be carried on as a single unit. California Railroad Commission has disallowed application to make a bond issue of $3,000,000, for improvements, but permitted the use of $771,348 from sales of bonds to provide for capital expenditure already made.

PEOPLE'S GAS, CHICAGO—1917 Deficit Important, Compared with 1916 Surplus—Report for year ended Dec. 31, 1917, shows deficit $365,201, compared with surplus $2,077,258 for 1916. The following comparison tells the story:

	1917	1916	1915
Gross	$19,338,637	$17,084,878	$17,037,894
Operat.	15,866,738	11,338,869	10,131,438
Deprec.	1,461,950	1,281,689	1,292,140
Int.	2,375,150	2,387,062	2,385,350
Deficit	$365,201	*$2,077,258	$3,228,966
Dividends	1,347,477	2,502,147	3,075,994
Deficit	$1,712,678	$424,889	*$152,972

* Surplus.

The 1917 dividends were declared from surplus, leaving balance sheet surplus $12,137,024. Surplus in 1916 was $13,789,105; in 1915, $13,800,295, and 1914, $13,662,870; 1917 increase in cost of oil over 1916 was $1,835,756; gas making fuel increased $1,195,969. Total assets are $108,364,304. The fact that Peoples Gas failed to earn its interest charges by $365,201 evidently needs explanation. This deficit came after an appropriation of $1,452,000 for depreciation, etc., an unusually heavy charge. Therefore, it was able, under difficult circumstances, to earn its interest. Consumption of gas increased materially. Over $3,000,000 of increased cost in the two items of oil and coal influenced the final showing. At the annual meeting the chairman said: "Financial condition is not likely to improve unless we are granted the 22% increase in rates for which we have petitioned. Indications are that if we run along about as we are now, with no material further increase in costs earnings for 1918 will come about $900,000 short of bond interest." It is not anticipated there will be any resumption of dividend payments before the next meeting of shareholders, a year hence. Dividend was passed because more than $10,000,000 will be expended on the new coal plant and also decreased earnings.

PHILADELPHIA CO.—Guarantee Liabilities—Bondholders of United Traction filed bill of complaint to hold company liable for interest on bonds on which interest was defaulted January 1, 1918. Suit has been filed against the company, Equitable Gas and Consolidated Gas, Pittsburgh, to enforce against Philadelphia Co. liability for principal and interest of the bonds of the Consolidated of Pittsburgh, under which a default in interest payments took place.

PHILADELPHIA ELECTRIC—6% Notes Placed—An issue of short term 6% notes is reported placed by an underwriting syndicate on a 7¼% basis. Notes run for two years and amount is $7,500,000. Proceeds will finance construction and retire $2,500,000 notes due August.

MINING AND OIL

Low Priced Mining Stocks of Merit

Review of United Eastern Gold—Amortization Discussed

By VICTOR DE VILLIERS

THE February 16 issue of THE MAGAZINE OF WALL STREET cautioned the mining stock investor against buying without giving proper consideration to amortization. This advice is for the purchaser who intends holding his shares for income yield, as well as appreciation in capital value. The buyer for a quick turn or speculative rise need not be so particular. Accustomed to losses as well as profits, the precautionary principle of amortization will not appeal to him.

To "amortize" is to extinguish or "kill" a debt, obligation, or risk, by a sinking fund.

The Principle of Amortization

The idea of amortization in connection with a mine or a property whose income producing career is not indefinite, is to set aside or "write off" a certain amount each year to cover the depreciation in the property or investment during that year. Some mines, notably the "porphyries," have a term of life which can be fairly accurately gauged and their managements usually pro-rate amortization charges over a period of years so that the investor may regard the dividends he receives each year as interest on his money and not a return of capital invested. Others follow the equally good policy of returning a "regular" dividend, which is to be regarded as interest on the money, and when earnings warrant, "extras" which are specifically stated to be a part return of capital invested. Nevada Consolidated is a good example of this type.

In the case of still other mines whose term of existence cannot be measured with accuracy, like Anaconda for example, the management makes no attempt to amortize. The stockholder in a mining property should be careful to ascertain whether he is receiving merely a high return on his money, or whether such return includes a part of the principal. In the case of a mine which makes no amortization charges the conservative course for the long-pull investor would be to regard all dividends in excess of 6% annually as amortization or return of principal.

Butte & Superior is a familiar example of the "liberal dividend" trap for the unwary investor who fails to amortize. Butte disbursed around $60 in "dividends" in the 1915-1917 period, of which $34 was paid in 1916. To the unwary, the liberal "dividend yield" of 1916 looked too easy, too sure a thing to deserve amortizing, or any other old-fashioned plan connected with prudent investing. In that case, the 30 to 50 per cent. annual return promised to make the investor too affluent to justify niggardly caution. In fact, it almost made "one hundred per cent. Miller" unattractive by comparison.

While the knowing B. & S. investor chuckled complacently at his good fortune, dividends were reduced and finally passed. With the shrinkage in "yield" came the crumbling of investment value. From 105, the price tumbled rapidly to around 50. The shares "adjusted" themselves temporarily to a reduced but still generous "dividend"; and there were no lack of unwary buyers at 50. The supposed permanent yield was still attractive. But dividends were again reduced, and ultimately passed. The shares slumped to 40, 25 and with a thud to 15; and the investor learned a lesson on *Amortization*.

With a general understanding of the broad principles of amortization in mind, we hope to take an early opportunity of examining, in closer technical detail, the particular methods used by statisticians; and to suggest a plan whereby the serious investor can use this knowledge to his own immediate advantage.

United Eastern Gold

Arizona is one of the brightest jewels in America's scepter of mining supremacy. The mere mention of a few districts by name, such as Miami, Ray, Bisbee, Globe Jerome, Superior and Oatman, instantly recalls the commanding position of this remarkable state in American mineral wealth. United Eastern is one of the many bright stars in a comparatively new country, which already has to its credit such producers as Silver Queen and Silver King, Copper Queen (Phelps Dodge), Calumet & Arizona, Old Dominion, the United Verdes, Gold Road Bonanza, Tom Reed; and a host of better known companies such as the two Rays, Miami and Magma. The latter was a sensational silver producer long before it achieved fame as a copper bonanza: which is by way of illustrating the versatility of Arizona.

TABLE I—UNITED EASTERN GOLD
Operating Costs and Profits

1917	Tons Ore Milled	Gross Value	Net Profit
January	3,800	$83,089.58	$43,079.22
February	5,383	120,176.56	70,852.96
March	6,584	156,962.59	104,338.28
April	6,706	143,786.69	93,504.63
July	7,324	175,898.00	120,800.00
August	6,905	173,646.00	123,675.00
October	.....	177,000.00	115,000.00
November ...	.....	173,000.00	120,000.00
December ...	.....	172,000.00	120,000.00
1918			
January	8,145	180,400.00	121,000.00

The United Eastern is a comparatively young and new property. It was incorporated in 1914 with a nominal capital of $1,500,000. A glance over the list of officers will, in a measure, explain the rapid growth of the company. Such names as D. C. Jackling, Philip Wiseman, Seeley W. Mudd and Frank A. Keith are too well known to mining men and investors to require a more rigid examination of the sponsorship for United Eastern. Their respective connections with Utah, Ray Consolidated and Tonopah Mining were eminently successful.

The company owns about 27 claims covering about 300 acres, Mohave County, in the Oatman Goldfields of Arizona. The United Eastern's promising ore body caused a boom in the district some years ago. Not that the company discovered Oatman: the founder of the district was the famous Gold Roads mine, discovered in the '80s and acquired by the U. S. Smelting Company in 1912. The Tom Reed mine, adjoining the United Eastern, discovered in 1900, has paid around $3,000,000 in dividends on a capital of $1,000,000 since 1907. United Eastern, presumably covering the northwestern extension of the Tom Reed vein, was the third large producer of the district, and, finally, stamped Oatman with the prestige of a permanent gold camp.

In addition to its original claims, the company later acquired the adjoining Big Jim mine for about $800,000, and a smaller property, the Sunnyside Mine, near the town of Oatman.

A Typical Arizona Mine

Like the majority of the better grade of Arizona producers, the mines of the company are all deep-seated; quantity and quality are found only at depth; values seldom predominate near the surface. The fact that the Tom Reed has been developed to a depth of nearly 1,400 feet, to which depth the ore shoots persist with no material change in size or value, is noteworthy in studying the principal United Eastern producer, for the latter has so far been developed to a depth of only about 665 feet.

The main shaft is down 965 feet, with cross cuts opening the vein on the 303, 465, 565 and 665-foot levels. Cross-cutting is now going on at the 965-foot level, where the management hopes to reach the vein in the next month or so. The main vein is apparently continuous and shows little in-

TABLE II—UNITED EASTERN GOLD
Comparative Average Statistics

1917	Tons Ore Milled	Per Cent Extracted	Gross Val. Per Ton	Working Costs Per Ton	Profit Per Ton	Net Profit
Jan.-July, Inc.	44,889	96.00%	$21.59	$9.00	$13.50	$611,940

clination to diminish in size or quality as the work proceeds. So far, on the first three levels, the ore body is 42 feet wide, 400 feet long and 200 feet high, or 320,000 tons of pay ore. The 665-foot level has disclosed pay ore over a length of 650 feet of an average width of 20 feet; adding about 100,000 tons of $20 ore to the total. On the basis of present values, it has been estimated that each 100 feet of additional ore which may be developed on any level, or between the 665-foot and 965-foot level, should add $900,000 in value to the mine. This does not include new ore shoots or unprospected veins.

The ore reserves of the main property have been valued at $5,000,000 gross. The Big Jim property under development is said to contain $3,000,000 gross. The Sunnyside mine is insufficiently developed to justify an estimate, but its future is considered promising. Unofficial estimates should be accepted with reservation.

Production and Earnings

The main United Eastern mine, adequately equipped at a cost of around $250,000, is the substantial producer of the group. The mill of 200 tons daily capacity was finally tuned up in the beginning of 1917. Table I shows the climb from around 4,000 to 8,000 tons a month, with a corresponding trebling of net results from around $40,000 to $120,000. A recovery of 96 per cent. with pioneer working costs $9 a ton, and net profit $13.50 a ton, spells efficiency. It is understood that costs are now substantially lower and net earnings are being steadily pegged around the $120,000 a month mark, or the equivalent of $1.25 a share. Table II gives some average results over a critical period. We believe that net earnings of $1.25 a share will be the average present rate, according to the forthcoming annual report. The dividend of 5c. a share monthly, inaugurated in July, 1917, calls for $68,150 on the 1,360,000 outstanding shares of $1 par value. Taxes will not be very heavy, and earnings are sufficiently large to justify continuance of the dividend of 60c. annually.

The mill is about to be enlarged, as is currently reported; this, with the possibility of developments in the Big Jim mine, adds to the assurance that the dividend is not in danger. At around the prevailing level of 4, the dividend yield is about 15 per cent. Such a return should be a tempting opportunity for the intending investor to acquire the habit of amortizing his mining investments upon the basis outlined in this, and our February 16 issue.

Conclusion

In view of the satisfactory results so far attained, and the prospect of the affiliated properties developing into one of the great producing units of the Oatman Goldfields, and taking into consideration the attractive yield, which appears to be appreciably insured by the faith and good will of a reliable management, United Eastern at around 4 is more than ordinarily attractive as a speculative investment for a long pull. The shares should be held regardless of fluctuations for about five years, and the investment amortized out of dividends. It is assumed that the investor is prepared to recognize the element of chance in a proposition of this character; that he can afford to lose money, but is willing to take the risk for the sake of the unusual speculative possibilities for profit, which the shares appear to possess.

Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

AHMEEK—Rock Running 22 Lbs.—Rock being taken from shafts 3 and 4 Ahmeek mine is running 22 lbs. of copper per ton. This is in the face of a general assumption that it would be difficult to maintain an average of 18 lbs. per ton from that part of the property.

ALASKA GOLD—1917 Production Increased—Complete figures show production during 1917 2,040,167 tons of ore, compared with 1,888,869 in 1916. Although there was an increase in the tonnage handled the average assay value declined in 1917. Production reached a maximum in May, when output amounted to 227,900 tons assaying $1.18 a ton. December, with a production of 165,131 tons assaying $1.03, was the second lowest month. The average value handled reached its record low for 1917 in July at 98 cents. Losses in milling ranged from 18 cents to 22 cents.

AMERICAN SMELTING—Plans Re-opening Mexican Smelters—Has completed plans for the re-opening of its smelters at Chihuahua and Velardena, Mexico. Passports have been secured and employes are understood to be close to the Mexican border. About 20 expert employes of the company, although possessing passports, had been delayed at El Paso by the company's order owing to further depredations by the Villista bandits.

ANACONDA—100% Capacity Except in Efficiency—Attained 100% mechanical capacity in practically all directions. In man efficiency, however, results are poor. Production of electrolytic zinc has reached about 100 tons daily with prospect of increasing to between 150 and 175 tons when market conditions demand. Government requirements have been engaging a very large percentage of Anaconda electrolytic zinc which ranks with or even superior to "Horsehead" of the New Jersey Zinc Co., in quality. It will be several years before the big development which Anaconda has in South America matures. Statement of operating expenses in State of Montana during 1917, shows number of men employed in the mines and smelters 18,025; payroll, $27,973,197; supplies and construction, $47,142,904; total operating expenses, $75,116,101.

ARIZONA COMMERCIAL—Good Ore Encountered on 1,500-ft. Level—It is stated President Smith, of company, received advices to the effect that ore of good grade had been encountered on the 1,500-ft. level. This confirms the persistency of the ore body at depth. Although the vein has been drifted upon for only five feet, the ore is of about the same quality and character as on the 14th level above, which means that it runs between 6% and 10% copper.

BINGHAM—Earnings 1917, $4.89 a Share—Including equities in earnings of subsidiaries, Eagle & Blue Bell and Victoria, Bingham Mines earned in 1917 a total of $734,632, the equivalent of $4.89 a share, which compares with $1.80 in 1916.

BUTTE COPPER & ZINC—Income Statement—Reports for 6 months to November 30, 1917, gross value of ore sold: $1,535,163; net profit on operation, $510,150; balance, after $202,292 paid Anaconda Copper Mining Co. on account of lease and $153,929 for Anaconda's profit on account of lease, $153,929; net income, after general expenses and taxes, $119,772. New York Stock Exchange announced that it had added to the trading list voting trust certificates for $2,949,795 stock of the company.

BUTTE & SUPERIOR—Earning $125,000 a Month—Although prime western spelter had dropped, under the pressure of excessive production, at 7½ cents a pound, company is understood to be earning better than $125,000 a month. This is at the rate of $5 per share on 290,000 shares. A large output from high grade ore explains its ability to show profits where others fail.

CALUMET & ARIZONA—New Cornelia Development—Foresight of the management in outlaying millions of dollars in the development of New Cornelia is now apparent and has put to rest many rumors of discontent among Calumet & Arizona stockholders in the Lake district. The parent company's 1,000,000 shares of New Cornelia stock cost it but $5 a share, against a market value of over $17, to say nothing of an ownership of nearly $4,000,000 convertible bonds. In the last six months of 1917, the first period of active operations, New Cornelia is understood to have made a profit of $3,000,000.

CANADA COPPER—Progress in Extraction Plans—Reports rapid progress in its preparation to extract ore at a minimum cost. A main transportation tunnel, 2,900 feet long, started in September, 1917, is two-thirds completed. The new power line is ready for operation.

CONSOLIDATED COPPERMINES—Resumption of Operations Feb. 15—Property would be in operation by Feb. 15 and ship 1,000 tons of ore a day.

HOLLINGER—1918 Estimated Ore Reserve—The company began 1918 with an estimated ore reserve of $40,231,435, with five shafts each down to 800 feet and a winze to 1,250 feet, with a plant completed at a cost of $3,000,000, including a mill and cyanide tanks, with a daily capacity of 2,800 tons and, lastly, with a balance sheet showing $712,724 in net cash available as working capital.

KENNECOTT — Production, January, 1918—Reported production in January, 1918, as 5,970,000 lbs., compared with 7,086,000 in December and 7,080,000 in January, 1917.

NEW CORNELIA—New High Production Record—It is stated that company established a new high production record in January with 4,136,000 lbs. Every month since the starting of operation on June 7 has shown a new record. Company is now producing 50,000,000 lbs. yearly of some of the lowest-cost metal turned out by any of the world's big copper producers.

NEW JERSEY ZINC—Strong Surplus Maintained—Operation of Federal war taxes cut into the 1917 surplus of the New Jersey Zinc. Taxes reduced surplus for the year from $6,400,000 to $2,100,000. Having brought forward from the banner 12-month period of 1916 an addition of close to $7,000,000 to surplus the company was able to meet the Government levy without discomfort. From 1917 operations the company showed a net surplus of $6,400,000 against $7,800,000 in the previous year. Dividends were cut from $76 in 1916 to $36. From the year-end surplus of $6,486,601 the management deducted $4,381,650 as "additional Federal taxes for the first and second quarters imposed by act of Oct. 3, 1917," thereby cutting the year's surplus to $2,104,952. The margin of profit was reduced by the lower prices prevailing for the company's products.

NIPISSING—January Production—This company reported that in January it produced silver valued at $307,019. There were treated at the mills of the company 6,449 tons of ore, of which 53 tons were high grade. Shipments of bullion during January, including custom metal, were valued at $310,881. In December Nipissing produced silver valued at $340,793 and shipments totaled $376,433.

NORTH BUTTE—Completion of Concrete Shaft—Having practically completed concreting its shaft from the 3,000-foot level to the surface, the North Butte within ten days would be able to resume hoisting at capacity or at the rate of 1,200 tons of ore daily. With its Granite Mountain shaft thus remodelled, North Butte will have the only concrete shaft in the Butte district. The cost, including repairs and alterations, will approximate $300,000. The 1917 profits approximated $600,000, compared with over $2,000,000 earned in 1916, the falling off being due to fire and strike.

NORTH LAKE—Unexpected Conditions Necessitated Assessment—Pres. R. M. Edwards said: "We expected to have some definite and encouraging results from the explorations on the North Lake to report, but a number of unlooked for conditions have conspired to prevent it. While there was no error in the estimated distances to go, the unusual hardness of most of the rock gone through and great scarcity of labor has made the advance much slower than expected, and the greatly increased cost of coal, supplies and labor has, of course, advanced the cost per foot of crosscut."

SHATTUCK ARIZONA—Report for 1917—Net equalled $2.03 a share, against $8.68 in 1916. Pres. Bordon said: "The year had been one of anxiety and uncertainty, owing to strikes, scarcity of efficient labor, market disturbances and startling increases in costs of all lines of materials. Accompanying the report Gen. Mgr. Shattuck said: "The second half of our property carries rich silver-lead ores estimated to contain over 1,000,000 tons in sight, with a large acreage besides to draw from not yet touched. I believe we will open up in the undeveloped ground other large ore bodies in the near future. We will get a lot of high grade that we cannot now mine, when we get to working the lead-silver bodies. The lead-silver alone will bring us years of very handsome dividend returns."

SHANNON—Yaeger Canyon Copper Title Acquired—It is stated that the company had acquired the title to the property of the old Yaeger Canyon Copper Co. This property is located eight miles southwest of Jerome. The old 1,200-foot incline shaft was unwatered and the workings thoroughly explored. Large untouched copper was disclosed and new reserves have been blocked out. A few small shipments were made to the Humboldt smelter. The company is installing a $30,000 power plant at th Yaeger Canyon mine and it is understood that a concentrator is among the probabilities.

TENNESSEE—Heads List as Acid Producer—Company has advanced to a point where it is the largest producer of sulphuric acid in the United States, if not in the world. It should turn out in excess of 300,000 tons of 50% acid in 1918, and derives its products from ores from its own mines. It commercializes the fumes from its stacks. Indications point to net of close to $1,000,000 for the 1917 year. This should be considerably bettered during 1918.

TONOPAH MINING—January Profits $56,300—Profits for January were $56,300, compared with $61,000 in January, 1917.

UNITED VERDE—Heavy Excess Profits Tax Faced—Company faces the probability of a heavy excess profits tax. Up to 1918 United Verde had an unbroken dividend record of 29 consecutive monthly payments of 75 cents per share, with extras of 75 cents a share paid on 17 of these dates. Senator W. A. Clark owns all but a few hundred of the company's 300,000 shares of stock. Having attained a capacity of approximately 6,000,000 lbs. of copper a month, this company has become one of the important producing factors in the United States.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

ATLANTIC REFINING—Annual Report Delayed—President has sent a notice to stockholders saying it had been found impossible to prepare the annual report at the usual time, but that it would be sent out later. Dividends paid in 1917 were out of 1917 earnings.

CUMBERLAND PIPE—Best Showing of Eastern Pipe Lines—Earnings of the eastern pipe line companies during 1917 as a rule slightly exceeded those of 1916. Cumberland, with a gain in net of $308,393, and in percentage of 15% on its stock, showed the largest increase over 1916 earnings. Cumberland's increase in earnings was due to the development of new oil fields in Kentucky.

INDIANA PIPE—Report for 1917—Balance sheet, Dec. 31, 1917, shows a profit and loss surplus of $2,731,229, compared with $2,477,975 Dec. 31, 1916. The 1917 net was equal to $14.54 a share, compared with $13 a share in 1916.

MIDWEST REFINING—Salt Creek Plant in Operation—Company's new casing-head gasoline plant at Salt Creek has been placed in operation.

PAN-AMERICAN—Stock and Bonds Offered—William Salomon & Co. offer first lien marine equipment 6% convertible bonds at a price, according to maturity, to yield 7%. These are of an issue of $6,650,000. The amount authorized was $7,000,000, of which $350,000 has matured. The bankers also offer 7% cumulative convertible pfd. stock at a price to yield about 7¾%. Company controls the Mexican Petroleum Co. through ownership of $17,500,000 common stock and $9,035,000 8% pfd. stock of the last named company, being about 51% of the total of both issues. In addition to this, it owns a fleet of 12 modern steel tank steamships. Consolidated net earnings of company and subsidiaries for the year ended Dec. 31, 1916, amounted to $4,134,819.

ROYAL DUTCH—Dividend 15 Guilders on American Share—Holders of American shares are notified that the Equitable Trust Co., as depositary of certain ordinary stock of the Royal Dutch Co. for the Working of Petroleum Wells in Netherlands, India, under an agreement dated Dec. 22, 1916, had received a dividend on the ordinary stock held by it of 15 guilders per Dutch sub-share, which is equivalent pro rata the existing rate of exchange to $2.17477 on each American share. Dividend will be distributed on Feb. 28 by the trust company to registered holders of American shares of record at the close of business Feb. 21, provided the necessary income tax certificate has been filed with it on or before that date.

SINCLAIR—Trunk Line Completed—Last length of pipe in new 800-mile trunk line, from the oil fields of Oklahoma and Kansas to new refinery at East Chicago has been connected. Company reported gross for the three months ended Dec. 31, 1917, of $2,280,485, and for the last six months of 1917, $5,499,832.

SOUTH PENN—Advance in Pennsylvania Crude—An advance of 25 cents a barrel in the price of Pennsylvania crude oil to a new quotation of $4 has been announced.

STANDARD OF KENTUCKY—Report for 1917—Shows profits of $1,967,020, after estimated allowance for Federal taxes, compared with $2,068,598 in 1916. Profits in 1917 were equal to $32.78 a share on $6,000,000 capital stock, against $68.95 a share the year before on $3,000,000 capitalization. Balance sheet shows a profit and loss surplus of $2,356,345, compared with $4,049,325 Dec. 31, 1916.

STANDARD OF NEW JERSEY—Trade Commission Findings—Federal Trade Commission has announced its findings concerning the cost of gasoline as produced by United States oil refineries in August, 1917, showing that the difference in the representative cost of the various districts and the prices charged the consumer ranges from 7 cents to slightly over 10 cents a gallon, but this cannot be considered the margin of profit, as the commission's method does not include freight and marketing expenses, amounting to as much as 6 cents to 7 cents a gallon in many instances.

UNION OF CALIFORNIA—Report for 1917—Including those of the Producers' Transportation shows profits of $15,154,197, compared with $11,197,053 in 1916. Net after $1,240,993 taxes was $7,642,284, compared with $7,224,564 in 1916. The Union Oil Company of California's proportion of the net profits of controlled companies included in the statement for 1916 was $1,629,317, and for 1917, $1,405,379. The pamphlet report showed that current assets aggregate $21,665,509, and are almost eight to one of current liabilities, and including war taxes accrued over five to one, and are considerably more than the total of all the indebtedness. Current assets are $6,306,421 more, and current liabilities $2,078,924 more than on Dec. 31, 1916, so that there was an increase in working capital during the year of $4,227,497, or 32%.

WAYLAND OIL—Report for 1917—Shows net profits of $191,335, against $191,704 in 1916. After payment of $24,000 pfd. dividends there remained a balance of $167,335 available for the 300,000 shares of common stock ($5 par value), equal to 56 cents, compared with 58 cents in 1916. Balance sheet, as of Dec. 31, 1917, shows a profit and loss surplus of $328,960, compared with $302,030 Dec. 31, 1916.

UNLISTED SECURITIES

Montgomery Ward and Its Three Million Customers

A Record of Consistent Progress—Growth of Earnings—Management and Financial Status—Investment Position of Stock

By A. SHUKRI

THREE MILLION customers! This in a nutshell explains the success of Montgomery Ward & Co., Inc., which has shown a remarkable record for consistent growth.

Since its reorganization, in 1913, every year has shown a substantial increase in sales over the preceding year and in net income available for dividends. Even fluctuations in the condition of general business throughout the country do not seem to have affected its earnings.

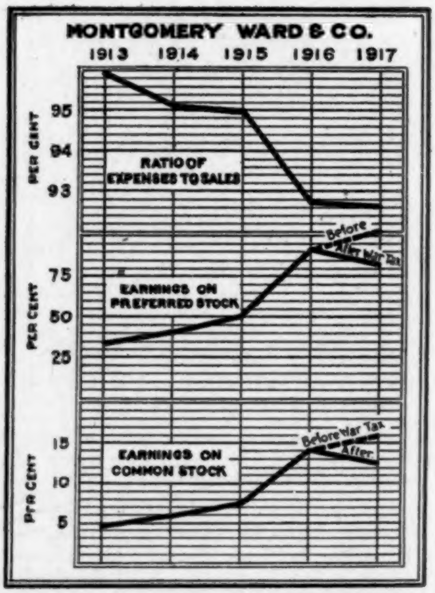
The present company was organized in 1913 as successor to another of the same name to engage in mail order business, that is, to sell merchandise by shipments from central warehouses to customers by means of distributing catalogues and filling orders received by mail.

The company owns in fee real estate and warehouses in Chicago, covering approximately 3½ acres of ground and containing about 19,000,000 cubic feet. It has branches in Kansas City, Brooklyn, and Portland, Oregon; controls through stock ownership Montgomery Ward & Co. of Texas, a Texas corporation, and owns the entire issue of common stock of Montgomery Ward Warehouse Associates.

Capitalization and Sinking Funds

The company has no bonds. Out of $10,000,000 7 per cent cumulative preferred stock authorized, $5,000,000 was issued at the outset, and $3,000,000 of the remainder has just been offered for subscription during the current month. In accordance with the provisions of the company's charter the preferred stockholders have first opportunity to subscribe to the new issue. Those preferred stockholders, however, who do not avail themselves of this subscription privilege are not permitted to sell their rights to any one else. Any stock, therefore, not subscribed for by them will revert to the company, and will then be offered to common stockholders. The common stock, divided into 300,000 shares, has no par value. It is closely held by the incorporators and has never been offered for sale.

Two funds are created by the certificate of incorporation. The first is a sinking fund, and requires the company to set aside each calendar year, beginning 1916, not less than 2½% of the total amount of preferred stock outstanding, out of the balance of annual net profits of the company remaining after payment of the 7% dividends on the



preferred stock. This sinking fund is to be used to retire the preferred stock at 112½ and accrued dividends.

The second fund is for additions to surplus and provides that $500,000 in 1913, 1914 and 1915 and $300,000 in 1916 and each year thereafter shall be set aside for this purpose.

No dividends may be declared on the common stock until these two fund payments have been set aside.

TABLE I—MONTGOMERY WARD & CO.—ESSENTIAL INCOME STATISTICS

	Gross Sales	Operating expenses	Net profits	Surplus after dividends
1913	$39,725,712	$38,072,231	$1,653,481	$1,331,675
1914	41,042,486	39,032,392	2,010,094	1,660,094
1915	49,308,587	46,835,929	2,472,658	1,222,658
1916	62,044,336	57,493,545	4,550,791	3,150,791
1917	73,512,645	68,092,957	5,419,688	4,019,688

Earnings

Total sales of the company have increased steadily every year. While operating expenses also were larger, the ratio of operating expenditures (including depreciation) to gross sales was lower, and the net earnings, therefore, showed a substantial increase each year.

The relation of expenses to sales is of special importance to all merchandising companies. It is, of course, of importance to any other business, but it is of much greater significance in an enterprise involving a quick-turn-over of merchandise.

Earnings on the preferred have taken almost perpendicular leaps each year. In 1913 33.07 per cent was earned, which indicated a reasonable degree of prosperity, but 1914 and each succeeding year broke the record of the preceding, until in 1917 the high-water mark of over 100 per cent was reached.

The conservative management of the company is shown by its dividend policy. After payment of 7 per cent dividend on the preferred stock, no dividends on the common can be declared before making provision for the two funds described above. Thus steadily a comfortable surplus is being accumulated. This is especially notable in the last two years, as shown in Table I herewith.

Assets and Liabilities

The balance sheet of the company for 1916 shows a large increase in merchandise on hand over previous years and a further increase will undoubtedly be shown at the end of 1917. The report for that year is not yet available. This is in large part due to the high prices of goods handled but also to the substantial increase in the amount of business done.

There is an increase of investments by over $200,000. The decrease in cash is partially covered by accounts receivable, which increased from $800,000 to $1,000,000.

The company keeps a liberal working capital on hand. The net working capital in 1913 was $9,481,215, its ratio to gross sales 23.9 per cent; in 1916 the capital was $13,336,752, ratio to gross sales 21.5.

TABLE II—MONTGOMERY WARD & CO., 1916 Balance Sheet

Assets:	
Real estate, building and fixtures	$6,528,982
Merchandise at cost	13,797,462
Investments	482,956
Cash	2,188,069
Accounts receivable	1.025.138
Notes receivable	984,239
Sinking fund deposit—pfd. stock	125,219
Total	$25,132,066
Liabilities:	
Com. stock 300,000 shares (non par) represented by	$8,186,396
Preferred stock	5,000,000
Accounts payable	3,633,301
Notes payable	1,300,000
Accrued taxes	207,810
Other reserves	203,592
Res. as provided in co's. charter	1,800,000
Sinking fund for pfd. stock	125,000
Profit and loss surplus	4,675,966
Total	$25,132,066

Outlook

In the light of its own history it can be stated that Montgomery Ward & Co.

as a business enterprise has been highly successful. Its earnings are consistently large, and there is no reason to suppose that the continuation of the war or the coming of peace would radically alter the conditions, so far as this company is concerned. The mail order business is coming to be more and more popular, and the nature and character of the business permits adaptation to varied circumstances. A decrease in one field of activity may easily be made up by an increase in another. As an officer of the company said recently: "We have made up decrease in grocery business by pushing clothing and other lines more strongly."

Montgomery Ward & Co., 7 per cent cumulative preferred represents one of the best types of investment stocks available and ought to appeal especially to the conservative investor. The range in prices, which is but a few points a year, as with high grade bonds, is more a result of money conditions than any other cause. Since there is no bonded indebtedness and since the preferred stock has prior claim not only as to dividends but also as to assets in the event of distribution or liquidation, to the extent of $115 per share, this security is in an almost invulnerable position. In fact, there is over $350 of tangible assets behind each share of preferred stock.

HIGH AND LOW PRICES OF PREFERRED STOCK

	High	Low
1914	111	110
1915	114½	110
1916	117½	112
1917	117½	105

At the current price of about 107 the stock unquestionably represents a very high grade investment, comparable only with bonds or the best preferred stocks.

Readers' Round Table

[Subscribers are invited to contribute to the Readers' Round Table Department. From our readers we receive many valuable suggestions and interesting ideas, and have inaugurated this feature in order that they may present their problems and their thoughts to their fellow-readers. We believe that this interchange of ideas will prove to the advantage of all. Send in your manuscript addressed to Editor, Readers' Round Table. No names will be used unless permission is given.—*Editor*.]

Accumulation and Distribution in U. S. Steel Common

Editor of THE MAGAZINE OF WALL STREET:

Kindly note the enclosed clipping and chart from the *Wall Street Journal*. Does not this conflict with the ideas in regard to accumulation and distribution explained by Scribner Browne in his articles on the "Tidal Swings of the Stock Market"? I would be glad to know what he has to say on this subject.—J. L. T.

(The *Wall Street Journal's* graph is reproduced herewith, and the clipping reads as follows:)

> Outside of Wall Street, and within, to a lesser extent, the opinion prevails that the so-called "big-interests" wait until stocks are cheap to purchase, and unload them on the public, or "Lambs," at greatly advanced levels, waiting then for another decline to repeat the operation.
>
> Like all legends, this dies hard. But the facts, when they are obtainable, tend rather to prove the opposite—that the public buys when stocks are cheap, and sells out at advances.
>
> At least, this is so in regard to the stock of the United States Steel Corportation, with its 5,000,000 odd shares of common stock, the most widely traded in of securities. "Little Steel" is the favorite vehicle of speculation for the man with a small capital when he enters the market, and it is also well regarded by him as an investment issue, at a price.
>
> Statistics of the big corporations' stockholders, in comparison with the fluctuations of the stock over nearly seventeen years, or since the corporation was formed, show conclusively that the stock has been most widely distributed among the public when it was low, while small holders apparently sold out whenever the stock went up. For the number of the corporations stockholders invariably dwindles as the price of the stock increases in the market, and as invariably grows as it declines.
>
> When Steel common sold around $38 a share early in 1915, the number of its shareholders was 56,825. When late in 1916 and early in 1917 it sold from 95 to 134⅝, its stockholders averaged around 40,000 in number. To-

wards the close of last year, Steel dropped again sharply, and the number of its stockholders promptly shot upwards to 51,689.

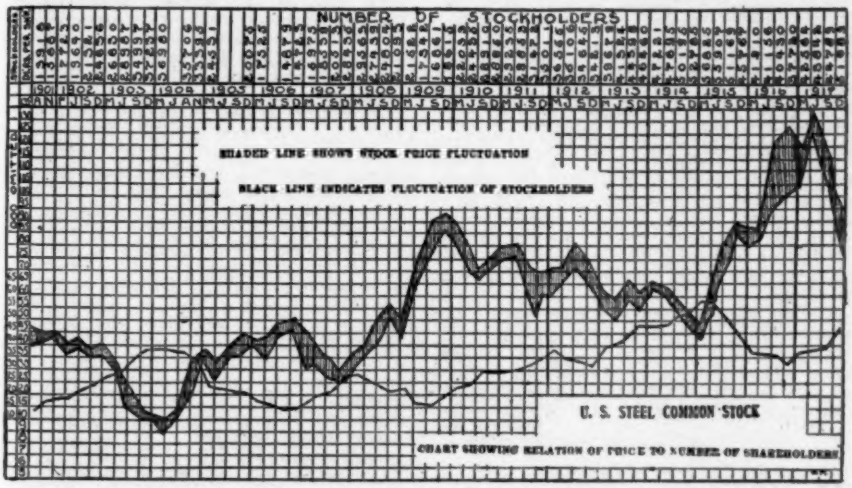
Answer: These figures do not conflict with my articles. The idea I have tried to convey is that at a low level of prices stocks pass from speculators to investors, while at a high level of prices they pass from investors to speculators. Average holdings of investors are naturally smaller than the average holdings of speculators. This is, of course, because the investor pays for his stocks in full, while the speculator buys on margin. Therefore, the speculator can easily carry a much larger quantity of stocks with the same money.

What the *Wall Street Journal's* graph shows, therefore, is that more Steel common is in the hands of investors at low prices than at high prices. The figures are taken from the books of the company, and relate to investors only, since speculative holdings are very rarely transferred on the books.

As I have said in my articles, I do not think the terms accumulation and distribution express the idea in a thoroughly satisfactory way. In using these words, we have to remember they refer to action by investors. It is true that large speculative interests often accumulate stocks and carry them on margin until they are ready to distribute, but when we take a broad view of the "tidal swings of the market" we find that the prominent feature of the situation at a low level of prices is the drifting of speculative holdings into investment hands, while at high prices the reverse is taking place.

Therefore, in using the words accumulation and distribution, it is necessary for us to keep in mind the special meaning which they have in this connection.

SCRIBNER BROWNE.



Editor of THE MAGAZINE OF WALL STREET:

Some time ago through reading a book on economics, I gained an idea that money after all was merely a means of exchange to be used to the best advantage, and that when not being used in that manner it was lost energy. In the same manner the credit obtainable by having this money was also a force to be used to advantage. This enabled me to understand just what Mr. Rockefeller may have meant when he said (as reported) "Don't work for your money—make it work for you," so I set about to find a way to do it.

I have been getting your magazine for some years, and the little economic theory plus the practical advice derived from some of your articles led me to adopt the following method—based upon the advice so often given in your columns that the most a man should reasonably expect in Wall Street was a large percentage upon the amount of money used.

My method is as follows:

Say you have five thousand dollars, all told, of credit—four thousand dollars in bonds and one thousand in cash. For this you can buy practically ten thousand dollars worth of securities, actual market value by depositing the bonds and cash with your broker. The only thing to trouble you is to be sure you are buying securities which have a good outlook and are not high (consult the investors' department for aid), the following, for instance:

20 South. Pacific @ $85......	$1,700
10 Union Pacific @ $115.......	1,150
20 Anaconda @ $65...........	1,300
20 Inspiration @ $50...........	1,000
20 Northern Pacific @ $85.....	1,700
20 Atchison @ $85.............	1,700
20 Amer. Loco. @ $60.........	1,200
Total	$9,750

Deducting $1,000 cash leaves $8,750, plus

commissions, on which you must pay your broker an average of 6% interest or $525.

Against this you receive the interest on your bonds (which I take from the broker when due, as I would do if the bonds were in a vault) and the dividends payable on the stocks held which amount to:

20 South. Pacific @ $6.........	$120
20 Union Pacific @ $10........	200
20 Anaconda @ $8............	160
20 Inspiration @ $8............	160
20 Northern Pacific @ $7......	140
20 Atchison @ $6..............	120
20 Amer. Loco. @ $5..........	100
Total	$1,000

Deducting the $525 paid to broker you receive $475 interest per year on your $1,000 or between 40% and 50%. Now take any of the stocks mentioned. With no exception they have all sold higher than the prices I've mentioned—which are more than you would have to pay for the stocks today. If they should reduce their dividends, which seems unlikely, you will still get more than you could otherwise obtain. And if they decrease in market value you are amply covered so that all you need is to keep your head and wait for them to come back while you keep receiving your dividends.

I want your criticism and comment on this scheme—I've tried it a year and it seems O. K., and would like to be advised of anything unsound in it. Of course, the time to do this is now and not at a time when the difference between money rates and dividends is small. When this condition prevails, sell your stocks bought now and wait.—C. R.

The plan is entirely practical under present conditions. It is to be noted, however, that although you plan to use your bonds as protection for the stocks bought, you figure your interest received on the basis of your $1,000 cash only. In other words, in order to get, say, 45% interest on your cash you have to have $4,000 worth of bonds which are paying you probably 5% or 6% interest. It would be a fairer way to figure this to include the bonds as part of the investment. If your bonds paid 6% you would be getting about 14% interest on the average for the entire $5,000, which ought to satisfy you.

Your selection of stocks is open to some objections. It is, for example, possible that the dividends on Anaconda, Inspiration, or American Locomotive might be reduced in a period of business depression. The railroad dividends, with the Government's guaranty behind them, ought to be fairly secure. This, however, has no bearing on the merits of your plan, as any investor would naturally use his own judgment, or get expert assistance, in selecting the particular issues in which he proposed to place his money.

This general plan of investment has several times been suggested in times of low prices in past volumes of this magazine. It is just as good as it ever was, but since it involves the purchase of stocks giving a high interest yield on the investment, and since these stocks are to be carried on about 40% margin in the form of cash and credit on collateral, considerable care in selecting the stocks is necessary and they must be bought at low prices.

This will be clearer after a little examination of your exact situation. On your $4,000 bonds you are allowed a loan of perhaps $3,000. This, with $1,000 cash gives you $4,000 with which to protect $9,750 worth of stocks, or a margin of a little over 40%—providing the bonds do not decline enough to reduce the amount of the loan you have obtained on them. At the present level of bond prices this danger would be slight.

A 40% margin on Inspiration at 50 protects it to 30. It sold at 38 last December. Of course, your position is strengthened by the fact that more than half of your investment is in high grade rails, which would not decline in the same proportion as industrial or copper stocks. But this shows clearly the necessity of a very careful selection of the stocks bought on such a plan as this.—Editor.

MARKET STATISTICS

		40 Bonds	Dow Jones Avgs. 20 Inds.	20 Rails	50 Stocks High	Low	Total Sales	Breadth (No.. issues)
Monday,	Feb. 11...		Stock Exchange Closed (Fuel Holiday)					
Tuesday,	" 12...		Stock Exchange Closed (Lincoln's Birthday)					
Wednesday,	" 13...	77.08	78.73	79.06	68.59	67.69	453,700	188
Thursday,	" 14...	77.08	78.71	79.87	68.44	67.51	390,100	189
Friday,	" 15...	77.01	79.96	80.86	69.25	68.34	610,200	196
Saturday,	" 16...	77.01	80.08	80.70	69.18	68.76	360,300	172
Monday,	" 18...	77.00	81.53	81.41	70.24	69.01	784,100	214
Tuesday,	" 19...	77.03	82.08	81.31	70.95	69.92	1,006,400	215
Wednesday,	" 20...	76.93	81.28	80.98	70.48	69.52	744,800	218
Thursday,	" 21...	76.95	80.53	80.50	69.72	69.07	623,600	186
Friday,	" 22...		Stock Exchange Closed (Washington's Birthday)					
Saturday,	" 23...	76.89	79.88	80.90	69.58	68.78	331,200	164

Specimen Analytical Service Bureau Report

[So many of our readers have inquired regarding The Magazine of Wall Street's Special Analytical Service Bureau, that we are publishing the following analysis made by the Bureau in order to give our readers an idea of the scope and thoroughness of such special reports. These reports are prepared for individuals and each one is written in conformity with the requirements of each individual case. For each report a moderate fee is charged. In the event of not being able to obtain detailed and accurate information in regard to a security, we return the fee to the inquirer. It will be appreciated that some securities are much more difficult to analyze than others and for that reason the amount of the fee must vary in accordance with the time required to prepare the special report. Further information in regard to the work of this Department may be obtained by writing to the Special Analytical Service Bureau, care The Magazine of Wall Street.—*Editor.*]

December 21, 1917.

Mr. ——————,

——————,

New York, N. Y.

Dear Sir:

At length we are in a position to report upon the Rock Tunneling Machine Company, and we take pleasure in submitting the results of our investigation.

At the outset, we may say that our investigation has been conducted in a peculiarly personal and direct manner, which includes production and inspection of original (and confidential) documents, together with the confidential opinions and reports of those best qualified to judge of the merits of the machine. We are not depending on hearsay, or "reports" in any degree. We can, therefore, proceed with greater confidence.

The company, of which you are a shareholder, is the successor of the old Terry, Tench and Proctor Tunneling Company, original owners of the patent rights of the rock tunneling machine which appears to be the creation of Mr. Oliver O. App. Capitalized at $1,500,000, in the absence of very exact figures we may assume that there are outstanding 150,000 shares (par value $10)—although there is good ground for the belief that the actual number is somewhat less than this.

The company's position in relation to earnings, assets and liabilities is very simple. It is just "making ends meet," paying its way in the struggle upward for recognition. Its principal (and practically only) asset is the present machine and patents relating to it. Its liabilities seldom appear to have exceeded $1,000 or $2,000, for salaries, rent, etc., and the company seems to have managed through the personal efforts of Mr. App to have kept itself out of trouble, by selling a few shares, borrowing from stockholders, etc.

The shares have declined from around 10 to around 2. At the latter price there is no actual market except among the stockholders themselves, and at this figure, valuation is pared down to around $300,000. The $300,000 is the market expression of ownership of a comparatively old machine, its patent rights, good will, etc. Will such ownership ever become worth $300,000, or $1,500,000, or more —or less: for on this depends your investment.

We will not take up your time by a lengthy description of the machine, its manifold uses, the market for it, etc. You appear to have kept yourself fully informed on this, and the machine has had unusual publicity in the public press, through the columns of *"The Scientific American," "Mining News," "Every Week,"* etc. If you have overlooked this, we enclose excerpts containing text and illustrations which better describe the invention and its operation than we could in a limited space.

In a word, the machine is a kind of engine of destruction and construction: a giant rock drill multiplied by eight: a Juggernaut which hacks and smashes its way through almost any obstacle, leaving an 8' 6" hole or tunnel where it strikes. It tears through Manhattan schist, Pennsylvania ironstone and substances less vulnerable to its steel claws with almost equal indifference. It leaves a smooth hollow chamber or tube, not unlike a mammoth gun-barrel or cannon, which appears to need little patching, "shoring" or concreting afterwards. But—the size of this tube is sufficient for any ordinary train to pass through; sufficient for the passage of trucks, men, materials or any other purpose for which a tunnel can be used commercially. And the uses of such a tunnel are too well known to need particular description.

This is the theory of the rock tunnelling machine owned by the Rock Tunneling Machine Company, valued as above. In practice, the matter works out somewhat differently, as we will proceed to show.

We may say at once, that our research and careful inquiry reveals nothing fundamentally wrong with the basic principle underlying Mr. App's clever invention. The "germ" of the big idea is all there, but there is no reason why it should not go through the trials and tribulations of other successful inventions, such as the telephone, telegraph, wireless transmitter, aeroplane and automobile: and the indications are that it is traveling the hard road.

How do these experiments affect you, and what of the future?

We concede the utility of the invention when perfected. An unlimited field is beyond reasonable doubt. The profit-making possibilities of say ten machines working continuously night and day also cannot be denied: the figures would be hypothetical and mis leading, so we will refrain from giving them. It will be sufficient to remark that each machine will cost about $10,000 to manufacture, and that each can be profitably employed (if successful) at a profit of around $100 a day.

Very little figuring is required to guess at profits.

Obviously, it follows, that if the invention is ultimately successful there is a modest fortune in sight for the owner of the patent rights to the machine, whether such owner be ultimately the Rock Tunneling Machine Co., or anyone else.

Will the machine be a commercial success, and will the Rock Tunneling Machine Company weather the storm? If the answer is "yes," we have no doubt of the profits in store for stockholders. But—the answer must be "yes" *to both questions:* There lies the solution to the problem for stockholders.

A look into the past reveals that, aside from unimportant experiments and tests, the machine has met its "Waterloo" on two separate occasions in New York and Pennsylvania. That these tests were difficult in the extreme, must be conceded. It must be remembered that the tests with which experiments were conducted, was through the medium of the second edition of the original invention, that is, a machine, now in use for about five years, which has been patched, altered and improved as circumstances permitted, or new ideas suggested themselves to the inventor gathered from the experiences and difficulties of the moment. The scene of the tests was Park Avenue to Lexington Avenue (under 42nd Street), New York, and Locust Mountain, Lansford, Pa. In both cases the machine was required to bore its way through rock of exceptional toughness and difficulty, namely Manhattan schist and Pennsylvania ironstone. For your information we may tell you that this job may be broadly compared to the action of a series of steel torpedoes "whirring" and eating their way through the sides of a battleship.

The difficulties encountered should not, however, be overestimated. The object of the tunneling machine—its ultimate object—is to encounter similar obstacles. If it cannot overcome them, it must fail as a commercial proposition, and fall back into the ranks of interesting but unprofitable inventions: of which, by the way, there are hundreds of thousands.

So far as the subway experiment went, the machine constructed two tunnels which are now being used. They were 105' and 65' in length, respectively. We regard the work as a near-success. Competent engineers, close to interests identified with the Interboro Construction Company while not finally committal in the the matter, substantiate our view in a general way. In this case, the machine did the work, slowly and laboriously. There were days of splendid work, runs of fifty minutes without a break, twenty feet was drilled without even sharpening the tools. On one occasion quite a few feet was bored in a single hour (the average being 8' to 10' a day). This, however, is the optimistic side of the picture. There were hours and even days of serious interruption and delays. Parts broke, repairs were frequent, cleaning operations consumed valuable time, and in a word all was not "smooth sailing"—or rather smooth boring, by any means. But the experiment was a step forward in the history of the company, and served to pave the way for many other improvements, and to point out the dangers ahead. A composite opinion of the result would read: "An interesting invention with great promise: it has not yet demonstrated its commercial superiority over existing methods. Its chances, however, appear to be very good."

Less of an experiment is the interesting work the machine is doing for the Panther Valley Water Co. in Lansford, Pa. Here, its work is the boring of a tunnel through the ironstone formation of Locust Mountain. The Rock Tunneling Company is working on a contract to bore a 1,000' tunnel through the mountain, at a remuneration of $12.50 a foot net, the Panther Valley Co. supplying unskilled labor, power, fuel and other incidental expenses, together with transportation.

This contract is still in force, and the writer has seen the entries proving that regular payment is being made to the Rock Tunneling Co. as the work proceeds. From this, it is evident that the work is giving sufficient satisfaction to warrant such payments. The work appears to be of an exceedingly difficult character, and we doubt whether there is a commercial profit in such work on a small scale. But the company is not apparently looking for large initial profits from its early contracts, but hopes to pay its way—as it appears to be doing—for a more stable basis of future progress.

An opinion of this work, would be that it is a great improvement over the subway construction work. Objectionable features of the machine have been removed to an extent, and better ones substituted. We have seen some of these features, such as an improved solid "striking" shaft in place of one divided into two or more parts—eliminating weakness and risk of breakage and fracture. The cutting edges of the drill have been altered in shape and style, dimensions have undergone a change for the better, and generally we are impressed with the all-round improvement which the machine has undergone during the last six months.

We have been permitted to verify the proof of the great interest the invention has aroused in many influential quarters. It is reasonably assured that the representatives (official and unofficial) of some of the allied and neutral governments are "interested," among others may be mentioned the War Department of the United States, the British Government (The British Channel Construction Calais to Dover is hinted at), the Russian government (?), the Norwegian government, U. S. Public Service Commission, etc., etc. A letter from a French representative regarding registration of patent rights in France, mentions the reluctance of the French authorities to grant letters patent at this time, until after the war, the reason being that "the idea is regarded as possessing a basis of important information which might be useful to the enemy, which makes it unwise to give out any particulars necessary for such legal protection." We understand, however, that the French rights

are being taken care of, in the meanwhile.

We have questioned Mr. App closely on the subject of finances, and must acknowledge his courtesy and frankness, as well as his complete co-operation in assisting us to make a complete investigation on your behalf. We expressed some surprise that the money should not be forthcoming—even from stockholders themselves—to inject new free capital into the enterprise, for the purpose of constructing one or two new and up-to-date machines, and to enable Mr. App to devote all his time to the constructive thought and care necessary to perfect and improve the invention. We pointed out that all his time appears to be devoted at present to the rather unprofitable occupation of keeping the finances of the company "above the water-line." Mr. App freely acknowledged the past co-operation and loyalty of stockholders, who have contributed generously in the face of a decline in their holdings. There appears to be about 800 stockholders, half of whom reside in New York and the rest in New York State. Some of them appear to be wealthy and influential, and this has resulted in financial support to the company during critical times. But this cannot go on indefinitely, and Mr. App expresses doubt that "big interests" can be induced to take a hand, except upon prohibitive terms.

In a nutshell, it is now "up to" Mr. App. Whether he can continue to finance the company in the future, as he has done in the past, is anyone's conjecture. We have no doubt of his faith towards the company and stockholders alike: his ability as an inventor and conservator of stockholders' interests is alike proven on past results. Whether he will prove himself to be as capable a financier in the long run remains to be seen.

We conclude that past results warrant further efforts at improvement, with emphasis upon the financial outlook of the near future. It all seems to depend now—as these things always depend—on ready money. Frankly, we are impressed with the possibilities, which are accentuated by the outlook for constructive work with the coming of peace. If no better machine is invented, the company possesses a valuable and ingenious invention which should prove a boon in many kinds of industrial enterprise. We, however, are unable to predict the outcome of any negotiations for financial aid, or which aim to put the company firmly on its feet. With this uncertain—and highly important—factor in the way, the whole aspect of the matter falls into the realms of uncertainty, and it follows that the shares of the company are only entitled to an extremely speculative rating.

You appear to have held your shares for some time, through a serious decline, and we assume that you are prepared to take a further chance, if necessary. We do not know whether you consider the money tied up in the shares "surplus funds" or not, but in any event it does not seem wise to stand by, and see an ever increasing shrinkage in capital value, if the clear indications are—lower prices. In such case, a sale nearly always results in the opportunity for repurchase at lower and more attractive levels.

On the basis of prospects, and the chance of new capital placing the company on a basis ensuring its future success, we consider the shares, selling around 2 to 3, to be selling high enough. At this price, they appear to discount the value of the machine, patents, good will, etc., in so far as the same has been demonstrated to date. The real time to buy and hold a stock of this kind is when uncertainties are more reasonably removed and out of the way, and this coupled with the factor of a market less disturbed than the present one, would give a holder more reasonable assurance for the future.

If you can sell a part of your holdings, and can afford to take a chance with the remainder, we advise you to do so. By doing this, you will be limiting your risk and still enjoy the advantage of a large profit if the company makes good eventually. You may be afforded the opportunity of repurchasing the shares you sell, at a lower price later, which course of action you should only pursue when the company is definitely in excellent financial shape—and not otherwise.

We may add, that we do not regard the holding of shares in the company as a conservative investment, but it is evident that you seem to have duly appreciated the risks involved, and to have recognized that in a case of this kind it is almost invariably "all or nothing," by which we mean—a large profit, or total loss of funds.

Always at your Service,
THE MAGAZINE OF WALL STREET'S
ANALYTICAL SERVICE BUREAU.

RUSSIA'S FUTURE

"Do not be alarmed as to the future of Russia. Some of my friends are taking frantic alarm that the Russian national debt may be repudiated. Well, it hasn't been repudiated yet, and I very much doubt whether the Russia that is emerging from this turmoil will ever repudiate any obligation, even though it may have been incurred in trying to hold the Tsar on his throne. All we need is a great patience, and a great fairness, and a great sympathy. Russia will soon learn that capital and labor must go hand in hand. Russia's vast resources must be developed for the benefit of the Russian people. That will be realized by the Russians quite as rapidly as we are realizing that the employers of labor must co-operate with labor to bring about the best possible results. The freedom of Russia was as inevitable as the natural laws governing the rotation of the earth. The uniting of all forces in Russia in a democratic social system is just as inevitable."—*Col. W. B. Thompson.*

"Under the Microscope"

A Critical Analysis of New Security Offerings

By "MAGWALL"

[The purpose of this new department is to analyze, weigh and classify offerings of new securities, without fear or favor, and also without malice or prejudice.

The purchaser of securities of a new enterprise is taking chances. There is nothing wrong about that if the nature of the proposition is truthfully explained to him, if the securities are offered on a reasonable basis, and if the management makes an honest effort for success.

Magwall will tell the facts as he sees them. He claims sincerity, but not omniscience. If he makes mistakes he will be glad to have them pointed out and if convinced of error will gladly make correction.—EDITOR.]

Little Lessons in Promoting Finance

II—Par $1.00, Offered at 50 Cents.

NOTHING appeals more to the average security prospect than the offer of an apparent discount. Somehow there is a rare lure to the message: "The par is $1. We are making a special introductory offer to a limited number of our friends at 50 cents a share. You want some of these shares. You know that. Fill in the order blank while it is fresh in your mind. Do it now."

It reads well, doesn't it? However, the object in selling stock of a new company is supposed to be to provide funds for the purchase of property, and for the necessary working capital for the development of the business. If with a par of $1.00 the stock is sold at 50 cents, haven't the promoters to sell more stock than would be necessary if the offer had been made at the full par price? I don't know of any jugglery by which a company can take the receipts of stock sold at half price and make it worth in purchasing and business development power the same as just double that money.

Suppose a new corporation needs $1,000,000 cash for the purchase of plant, equipment, and for required working capital. Suppose that the underwriters receive 25 per cent for selling the stock. To provide $1,000,000 in cash would require the sale of 1,333,333 shares, if the stock was sold at $1.00, and just twice as much if the stock was offered at 50 cents.

Let's assume that the company makes 20 per cent the first year on the cash actually received. With profits of $200,000 there would be available for each share 15 per cent if the stock was sold for $1.00, and 7½ per cent if the stock was sold for 50 cents. You see that nothing at all is gained for the stockholder or for the corporation by selling the stock at a price below par.

It is of course true that a stock selling at $100 and more doesn't appeal to purchasers having comparatively small investment capital. But instead of offering a $100 share at say $50, it can be brought down to a reachable level by putting the par at $50, or even $5 or $1, and offering the stock at par or above.

When banks and trust companies are organized, in nearly every case the stocks are sold at a premium, in order that the institution may commence business with a surplus. Not a bad idea. It is interesting that some new industrial and oil stocks are being offered at a premium large enough to cover the organization and stock selling expense.

Certainly it would appear that an offer of a new stock at a big discount from par is no favor. Whether the stock proves a good purchase or not is determined by deeper considerations, and it is no credit to a firm to bring out the discount price as an important inducement. It's the dollars that reach the corporation's treasury that earn the dividends and not the "discount" which nobody receives.

The Consumers Stores Company

Messrs. H. L. Barber & Co. are offering at 50c. a share 220,000 shares of the common stock of the Consumers Stores Company of Chicago, par value $1.00. The authorized capitalization consists of $2,000,000, one-half each of common and 7% preferred.

We are told that "the company has its regular large catalogue, which has been spoken of as the most serviceable mail order catalogue of home and farm specialties ever issued by a mail order house." A picture of a building is shown, the "location" of the company, but not apparently owned by the

company. However, we are told of the company's "combining the executive offices and wareroom"—note the singular. It would be interesting to know how large the wareroom is and just how many of the "home and farm specialties" are in the wareroom.

This observation leads to the fact that there seems to be no statement as to where the $529,047 of outstanding common stock went to. What was given in exchange? There was $46,099 of preferred outstanding, which might easily represent actual investment of cash, but when I find no record at all of what over half of the common stock of a company represents I am driven to the conclusion that maybe a good part of it represents simply "the idea." In this case at least the idea is by no means new enough to be worth a very large part of the capital stock.

Remember that gold mines, chain stores, automobile manufacturing and mail order promotion spell possible failure as easily at least as success. Remember that Chicago has been the scene of several recent expensive mail order house funerals. Therefore, voluminous statements as to the success of certain other mail order institutions do not banish the necessity for caution.

The information at hand concerning the Consumers Stores Company states nothing as to the success of the departments already established. Even though they haven't been long in existence a definite statement in terms of dollars would be helpful. It is stated that the new money is to be used for establishing a new grocery department—very good, if the company as a whole is and will be successful.

Several unsigned letters testify as to the character and ability of the young officials of the Consumers Stores Company. Never mind about assuring ourselves as to proper credentials. I won't question the standing of these young men at all, or emphasize the fact that they do not appear to have had any previous experience in mail order work. As to experience, you will remember that Goethals commenced digging canals at Panama.

I do wonder at the queer arguments made as to the advantages of purchasing the stocks below par. I do wonder as to what Messrs. H. L. Barber & Co. mean in stating that the present offer (even though succeeded by others at higher figures) is at "an inside bargain price." Do they mean that these 200,000 shares are offered at just the same price net to the company's treasury as the 529,047 shares outstanding before, or does this mean that Messrs. H. L. Barber & Co. are donating their services in the sale of this particular block of stock? I should surely want to know before signing the subscription blank. I should want to know what each share of stock now outstanding represents. I should certainly want to know what part of my 50 cents would reach the company's treasury. Otherwise I would take my chance as a rank outsider in buying stock of some well established corporation.

The Overland Producing & Refining Co.

The idea is the reduction of the shale rock of Colorado for its oil content. It has really been successfuly done in Scotland, they say, for a number of years.

We are assured that the amount of shale rock in the West is practically unlimited—some 5,500 square miles in Colorado and Utah, for instance. Apparently the Overland people have only taken on a mere mountain or two.

No mention is made of any successful shale rock oil production in this country, though the president of the Overland, Mr. J. W. Richards, also manager of the neighboring Shale Oil Mining Company, is said to have a complete plant.

No mention seems to be made of gentlemen in the saddle outside of Mr. Richards.

Queerest of all is the offer: "Get in on the ground floor of the enterprise. Stock at 2 cents a share." I notice that the capitalization is $100,000, but I don't see any statement as to what the par of the 2-cents-a-share stock is. Neither can I tell how much of the capitalization went to the promoters for the property and the idea.

On the whole, the only attractive feature of the offer is the price.

We who must remain at home comprise the supporting army of our men on the firing line. But unless each and every one of us does his full share we fail to discharge our sacred duty to them.—*Charles H. Sabin.*

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

AETNA EXP.—$54,000,000 War Contracts—A report filed with Judge Mayer by receivers shows that they had signed contracts of $54,000,000. It includes the four French contracts. It also included two new orders from the U. S. Government hitherto not announced. One for 12,000,000 lbs. of smokeless powder, the other for 2,000,000 pounds of picric acid, both for the U. S. Army. The formal contract has not been signed, but the company is producing. Operations have improved so that net earnings before taxes and amortization, from April 20 to Dec. 31, 1917, amounted to $4,636,459, a monthly average of about $500,000. Earnings under the old management averaged less than $45,000 a month. From April 20 to Dec. 31, 1917, the receivers received $28,608,565 and disbursements were $27,781,040, balance $827,524. In addition are special deposits from the sale of property and deposits with trust companies of $237,255, leaving a cash balance of $1,064,779 on Dec. 31. Claims against the old company were reduced to $1,500,000, due to mercantile creditors. Current assets on Dec. 31 were $16,076,826, an increase of $6,217,453 since the receivership, while current liabilities were $7,962,513, an increase of $3,354,038. Working capital on Dec. 31 was $8,114,313, as compared with $5,250,897 on April 20, 1917, a gain of $2,863,313. Balance sheet shows a profit and loss surplus of $536,647.

CURTISS AERO.—Calling of Convertible Notes—The company planned the early calling at 102½, of its 6% convertible notes. There are two issues, $2,000,000 in each case. The first mature $400,000 annually up to Jan. 1, 1922. $400,000 were paid off at the beginning of 1917. The other matures Jan. 1, 1927. It is expected that both will be called at 102½.

FEDERAL MOTOR TRUCK—Report for 1917—Shows production $6,005,000 against $4,261,000 for 1916. Assets include cash of $43,000, securities $169,174, accounts receivable $597,689, plant accounts $537,983 and inventory $1,632,701. Notes payable approximate $567,500 and accounts payable $420,000. Production was 2,918 trucks, against 2,442 in 1916. Unfilled orders total nearly $4,000,000, consisting of 300 foreign orders, 1,100 domestic orders, and 700 special Government trucks.

HERCULES POWDER—Earned $76.19 on Common—1917 surplus after pfd. dividends is equal to $76.19 a share on common against $227.75 in 1916.

HURLBURT—$500,000 7% Notes Offered—Locke, Hodges & Co. offered $500,000 Hurlburt Motor Truck Co. three-year 7% sinking fund gold notes at 95 to yield about 9% with five shares no par value common per $1,000 note. The proceeds provides additional working capital. The schedule for the year beginning March 1 provides for the manufacture and sale of 1,800 trucks.

JEWEL TEA—Sales, Four Weeks Ended Jan. 26, 1918—Were reported as totaling $1,155,963, compared with $1,161,950 for the corresponding period of 1917.

JONES BROS. TEA—Sales Show 23.73% Increase—Sales reported for January, 1918, totaled $1,036,089, as compared with $837,363 for January, 1917.

KRESGE—Sales Show Increase—Sales reported for January, 1918, totaled $1,991,183, compared with $1,834,023 for January, 1917.

MARCONI—Accounting Sought — The International Signal Co. has brought suit to compel an accounting from the Marconi Co. for $300,000. The suit is based upon an alleged agreement with the defunct National Electric Signaling Co. for the sale or leasing of wireless telegraphy patents.

NILES - BEMENT - POND—Assisting Government Work—Pres. Cullen said that the earnings for 1917, although considerably less than for 1916, are up to expectations of the directors. The war made necessary an almost complete revision of the manufacturing schedule. Amount of unfilled orders Jan. 1 is nearly 50% greater than a year ago. Greatest effort of company now is to supply the needs of the Government.

SCOVILLE MFG.—Report for 1917 — Shows net $9,204,884 after $2,184,000 reserve for taxes, against $13,403,462 in 1916. The 1917 net is $184.09 a share compared with $268.06 in 1916.

UNDERWOOD TYPEWRITER—Earned $22.38 a Share—After dividends on the preferred 1917 balance available for the common was $22.38 a share, compared with $20.98 in 1916.

WINCHESTER ARMS—Report for 1917—Balance sheet, Dec. 31, shows profit and loss surplus $18,586,218, compared with $18,343,487 Dec. 31, 1916. 1917 surplus $595,443 is equivalent to $59.54 a share, compared with $162.77 in 1916. Company has Government contracts in excess of $50,000,000 and gross business for 1918 should be between $40,000,000 and $50,000,000.

WIRE WHEEL CORP.—Government Shell Contract Secured — This company received from Government a contract for machining shells aggregating $650,000. While the work will not be as lucrative as the manufacture of wheels, officials stated that estimates show a fair profit. Earnings for the first four months following organization averaged $100,000 a month, but for the eight months from April to November, 1917, averaged only $69,050, the total for the period being $552,407.

TOPICS FOR TRADERS

Tidal Swings of the Stock Market

Part IX—The Selection of Securities—Bonds or Stocks?—Classes of Stocks—Prospects of Individual Companies

By SCRIBNER BROWNE

Author of "How to Read the Financial Page," Etc.

THE eight preceding chapters have been devoted to the general principles underlying the tidal swings of the market—the fundamental causes and the manner in which they work themselves out. An understanding of these principles is necessary to the investor who wishes to take advantage in a practical way of these broad "cyclical" movements.

The remaining articles of the series will deal more directly with the investor's actual operations. That is, having in mind the general principles and the various details in regard to their manifestation which have already been brought out, what shall the investor do about it?

Evidently he will try to buy securities as near as may be to the beginning of the upward swing and to sell them as near as may be to the end of it, and if he is so minded he will endeavor to sell short near the beginning of the downward swing and to cover his sales near the end of it. That much is obvious. He may also try to buy, under some conditions, on a considerable reaction in the upward swing, or to sell short on an important rally during the course of the downward swing. That will depend upon his temperament and *should,* at any rate, depend on his financial and personal condition—the degree of risk he is warranted in taking.

Selection of Securities

An important question in this connection is: What securities shall be selected? What classes and what companies?

For this purpose stocks are almost always better than bonds. By turning to the graph on page 142 of the issue of Oct. 27, 1917, you will notice that in the bull market of 1904 and 1905 the bond average advanced about 6 points while stocks gained 50 points. In the bull market of 1908 and 1909, bonds rose 14 points, but stocks advanced nearly 50 points, and in 1915 and 1916 the difference was still more pronounced.

The bond averages there shown are based on high grade bonds. The fluctuations of speculative bonds—or those not so strongly secured—are wider, but usually not equal to the price changes in stocks. Some of the so-called "income" bonds are practically equivalent to stocks, and fluctuate just about as much as stocks.

This does not mean, however, that the investor in bonds can afford to ignore the tidal swings. I have already shown that these movements are very important to him. It means that the investor whose main object is to make a profit in addition to income can usually get better results in stocks than in bonds.

Next, to what general class of stocks shall the investor turn in planning to take advantage of the tidal swings?

The Question of Dividends

In the matter of dividends, he will prefer, when operating on the long side, to buy stocks paying dividends which give a liberal interest return on the money invested, so that his profits may be in addition to dividends and not instead of dividends. He will naturally avoid stocks on the one hand having earnings so small that no dividends are paid, and on the other hand stocks so strongly protected by big earnings that they fluctuate but little and give but a small interest return on the money required to carry them.

He will select stocks which pay dividends, but which are nevertheless regarded as in the speculative class. Stocks of this kind have the double advantage, for his purpose, of relatively wide fluctuations and dividends which show a good interest return on the price.

For the short side, if he wishes to follow

that side, he will select non-dividend-paying stocks. He should not be prevented from this by the fact that such stocks naturally sell on a lower plane of values than dividend-payers, for he cares nothing about whether the stock is high or low in comparison with others—he is interested solely in its *relative* fluctuations. It is better for him to sell short a non-dividend-payer at 40 and buy it back at 25 than to sell one-third as much of a dividend-payer at 120 and buy it back at 75, after having been charged with whatever dividends were paid during the time he was short of the stock. (Since the holder of a stock gets the dividends, the short who has sold to him must pay those dividends out of his own pocket.)

The short must, however, avoid those non-dividend-paying stocks which represent rapidly growing companies and are therefore just about to emerge into the dividend-paying class. If a stock of this class begins to pay dividends or even if the prospects for dividends improve greatly during a downward tidal swing, it may fail to decline or may even advance against the general current of the market.

As between railroad and industrial stocks, the industrials are now decidedly the better for the tidal-swing investor. The rails have narrower fluctuations, the dividend return on them is smaller in proportion to price, and the nature of the railroad business is more stable than that of industrial companies.

Yielding Over 10 Per Cent.

For example, turning to the last table of "Industrial Earnings, Dividends and Income Yields" in THE MAGAZINE OF WALL STREET, I find that there were 19 stocks in the list for which the income yield on the price was over 10 per cent. It is a great help to the tidal-swing investor to be getting over 10 per cent on his money all the time it is invested in a stock, even though his primary purpose is to take advantage of the swing in the price.

I also find in that table six non-dividend-paying stocks which are selling near or above 40—and this at a time when stock values in general were relatively low. Just after a bull market culminates there is always a considerably wider choice than this in the matter of non-dividend-payers.

Other things being equal, the investor who wishes to take advantage of the swings will prefer an active, listed stock, so that he is always assured of a good market whenever he wishes to buy or sell. And since there are plenty of those stocks there is very little object in his going into an unlisted or inactive issue.

Choosing Special Issues

In the matter of the particular stock or stocks to be selected, the tidal-swing investor has great opportunity for the exercise of judgment and sound business sense.

The best stock to select for a purchase is naturally one which has been showing a steady increase in the annual per cent. earned year by year and which appears to have good prospects for a continuation of this same tendency.

For example, turning back to the bargain days of 1914, we note certain industrial stocks for which earnings had been showing a decidedly progressive tendency:

	1911	1912	1913
Gen. Motors	15.7%	17.3%	38.8%
Kresge	...	8.7	14.7
Woolworth	...	8.9	11.0
Sears, Roebuck	17.0	19.3	21.2
Tenn. Copper	8.1	21.9	19.3
Utah Copper	39.7	53.5	50.7
Pittsburgh Coal pfd.	5.1	7.5	10.1
Bethlehem Steel	6.7	6.9	27.4
Rep. Iron & Steel	0.7	1.7	5.0
U. S. Steel	5.9	5.7	11.1

All these issues did well in the ensuing bull market, but the largest returns were reaped by those investors who had imagination enough to conceive what the war meant to Bethlehem Steel, General Motors, and the more speculative issues among the steels and coppers.

In this case the special conditions created by the war were the controlling element. Under more normal conditions the important point is to select the stocks of companies which are in the growing stage, which are just beginning to get results from the foundation which has been laid in recent years—not companies which have already "arrived," or which are not likely to arrive.

I have said that the best stocks to sell short after a bull swing culminates are the non-dividend-payers. There is one exception to this—stocks on which the dividends are about to be passed. It is more difficult to select these, of course, and it is perhaps

unwise for the novice to attempt it unless he has competent assistance. Yet it really required no very high degree of statistical knowledge or judgment in the fall of 1912, for example, to see that New Haven was on the down grade; or to see in the latter part of 1913 that M., K. & T. was getting into trouble.

Diversification of Holdings

The investor for income generally prefers to diversify his holdings among different industries, different classes of stocks, or between stocks and bonds, so that if something unexpected happens to one industry or one company he will not be so heavily affected by it as he would have been if his holdings had happened to be all in that line or that stock.

The tidal-swing investor may well employ this principle in a modified form by distributing his holdings among several of those issues which seem to him the most desirable. In 1914, for example, a distribution among one motor stock, one steel, one copper, and one chain store issue would have given excellent average results.

An important aid in selecting stocks for the swing is to observe the relative strength of various issues during the minor movements which take place around the turning point of the main swing. For example, after the investor believes a bear market has ended, suppose he finds that the prices of two stocks, which we will call A and B, have fluctuated as follows during a period of, let us say, two months:

	Stock A	Stock B
High	79	52
Low	72	48
High	75	51
Low	69	47
High	74	53
Low	70	50

It is clear that Stock B has shown considerably better resistance to the selling pressure than Stock A. On the small downward moves B's declines have been less in proportion than A's, while B's advances have been relatively better than A's.

The principle is so obvious as to require no elaboration. It has much less value during the progress of the up-swing or the down-swing. It is most useful around the turning points, when a bull market is culminating, or when a bear market is drawing to a close and the upward movement is beginning.

The subject of the next article in this series will be "Following the Trend."

LABOR AND THE WAR

If our democratic institutions and form of government are to endure, labor and capital must get together and work out their joint salvation. Many of the destructive and uneconomical statutes now on the books must be repealed. Labor and capital, working hand in hand, must see to this. There must be a more equal division of profits and sharing of responsibilities and obligations by labor and capital. Production must be increased. To restrict the output of labor reduces our productivity and diminishes our wherewithal to compensate labor, hence the limitation of production is premised on an economically wrong principle.

Labor leaders should recognize this fact, for it weakens the workman and robs society. This does not mean that we should advocate speeding up to the limit of individual endurance, or that labor should be continued to the point of exhaustion. It means only that there should be no voluntary shirking.

It means at a time such as this, when there is more work to be done than there is labor to do it, that many uneconomic and unsound stipulations heretofore written into labor's contract should voluntarily be rescinded for the benefit of all.

There has been a reluctance on the part of some employers to discuss the labor question for fear of misinterpretation of motives. In my opinion the time has been reached when this subject, which bears vitally not only on our industrial salvation, but on the successful conduct and termination of the war, must be considered frankly and fairly.—*Theodore P. Shonts.*